TRANSPORT SCOTLAND

ANNUAL REPORT AND ACCOUNTS 09/10

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SCOTTISH GOVERNMENT TRANSPORT PRIORITIES

Wealthier and fairer Scotland

Making journey times faster and more reliable and improving connections to help build and sustain economic growth; providing travel opportunities for employment, business, leisure and tourism and linking towns, cities and rural communities throughout Scotland.

Smarter Scotland

Promoting innovation and encouraging implementation of new transport technologies, such as alternative fuels, to allow us to meet greener challenges and contribute to Scotland's economic growth.

Healthier Scotland

Encouraging a shift from car to public transport and to healthier and physically active forms of transport and improving transport access (public and private) to health and community services.

Safer and stronger Scotland

Improving the quality, accessibility and affordability of public transport to provide access to essential services and economic opportunities, including support for communities in less accessible or remote parts of Scotland. Reducing accidents by improving the condition of our roads, investing in new technologies to increase safety and security, promoting road safety and driver education.

Greener Scotland

Reducing transport emissions to tackle the issues of climate change and air quality by promoting public transport and encouraging individuals to shift from the private car to more sustainable, healthy and active forms of transport. Encouraging the adoption of new low carbon technologies and promoting cleaner vehicles.

CHIEF EXECUTIVE'S INTRODUCTION

This was another hugely significant year for Transport Scotland against a backdrop of difficult economic conditions and the worst winter weather in Scotland in over 40 years. We continued to drive forward Scotland's largest ever programme of transport investment, in direct support of the Scottish Government's Purpose of increasing sustainable economic growth, by **investing almost £2.2 billion** in transport projects and services.

This Report sets out the progress Transport Scotland has made in 2009/10 against the key delivery priorities in our Corporate Plan 2008-11 and in achieving the specific targets/ outcomes in our Business Plan for the year. Key achievements include:

- our priority infrastructure project, the largest and most ambitious Scotland has seen in several generations, is the **Forth Replacement Crossing Project.** This new project took a significant step forward with the start of the tendering process and the introduction of the Forth Crossing Bill. Opening this project to the marketplace gave a major boost to the construction sector
- work on the **Borders Railway Project** continued. This railway will open up the region to rail passengers for the first time in over 40 years. The start of these works is one of many programmes of investment in Scotland's transport infrastructure helping to support Scotland's economy. The Borders Railway will provide a fast, efficient rail link connecting communities from the Scottish Borders to Midlothian and Edinburgh and act as a catalyst for economic growth right across southern Scotland, supporting hundreds of jobs during its construction
- major progress has been made on the **M74 Completion Project,** including the delicate operation to lift into position eight vast beams over the M8 using Europe's largest mobile crane. The completed M74 will bring with it opportunities for thousands of individuals and fast efficient links for businesses. This link will also support the East End regeneration and help deliver the best possible 2014 Commonwealth Games. The construction phase itself is already providing jobs in a difficult economic climate. Construction will be completed in summer 2011, ahead of schedule
- the **M80 Stepps to Haggs** completion project continued to move forward with the start of construction of the main carriageway. When completed, the M80 will cut journey times during peak periods by up to 40%, saving motorists up to 15 minutes each way. This will bring substantial relief from the traffic congestion currently endured by the communities living along the existing A80
- good progress is also being made on the **Edinburgh-Glasgow Improvements Programme (EGIP)**. Preparatory work for the electrification of the railway was completed during 2009/10. Although the complete programme is not due to finish until 2016, this is an important milestone in delivering a cleaner, more efficient railway. The complete programme will see services between Scotland's two largest cities transformed with the fastest journey time decreasing from 50 minutes to around 35 minutes, the fastest scheduled service between the two cities in the history of the railway
- work continues on the construction of the new **Airdrie to Bathgate** rail link. This new line will encourage economic investment, bring increased connectivity to the

local communities, provide access to employment opportunities and leisure activities and reduce traffic on the M8

- by undertaking a **Sustainability Review** during 2009/10 we were able to better understand how delivering major projects can be undertaken in ways which reduce energy, materials, waste and carbon flows. For example, rubble from a number of areas of Glasgow, including two 23 storey flats in the Gorbals, is being used in the construction of a five mile stretch of the M74 Completion project between Carmyle and the M8 at Kingston Bridge. This is just one of a number of initiatives being undertaken to mitigate the environmental impacts of construction. The M74 project's sustainability achievements have been recognised by the award of full points for environmental performance by the Considerate Constructors Scheme
- we have also invested £200 million in a fleet of 38 **sustainable electric trains**, the largest electric train order in Scotland in a decade. The eco-friendly trains are specified to be four times more reliable than the existing Scottish fleets and with regenerative braking, the trains will raise energy efficiency on Scottish routes to new levels
- the year has seen **high speed rail (HSR)** in Britain dominate UK transport policy discussions. By offering a low carbon alternative to domestic aviation, HSR can make a significant contribution to achieving Scotland's climate change targets. Transport Scotland's strategic business case for this firmly demonstrates that Scotland is central to the business case for HSR in the UK - this was submitted to the UK Government's HSR review in October 2009. Inclusion in a UK HSR network could bring economic benefits worth over £20 billion to the Scottish economy and reduce our reliance on short haul aviation. A full high speed connection could result in a three hour journey time between Scotland and London and reduce carbon emissions
- the **winter of 2009/10** was the worst since 1962/63 and the second coldest in recorded history. Transport Scotland worked with the Trunk Road Operating Companies to provide winter service on the trunk road network 24 hours a day, seven days a week. More than 35,000 tonnes of salt was distributed across the national network in just three weeks, with more than 100 gritters operational
- in addition to these immediate problems, the weather also had an adverse effect on the overall condition of the trunk road network. By using our **Road Asset Management Plan** and working closely with Trunk Road Operating Companies we aim to manage and maintain the Scottish trunk road network in as effective a manner as is possible and place ourselves at the forefront of UK and international practice in road management
- Ministers approved the **Aberdeen Western Peripheral Route (AWPR)** but legal challenges to the project were lodged in the Court of Session in May 2010 and these need to be resolved by the Court before any construction can start. 2009/10 also saw the cancelation of the branch line element of the **Glasgow Airport Rail Link** project. However, work on the main line between Glasgow Central and Paisley will continue as the **Paisley Corridor Improvements,** part of the West of Scotland railway investment programme, an investment of more than £400 million over a two-year period on major improvements to rail services for the 1.3 million passengers a month using the railway in the Glasgow City, Renfrewshire, Ayrshire and Inverclyde areas

Since the end of the period covered by this report the decision was made to combine the Scottish Government Transport Directorate and Transport Scotland into a new, single, transport unit covering all of the Scottish Government's transport responsibilities. This took place on 2 August 2010. The new combined Agency retains the Transport Scotland name with locations in Edinburgh and Glasgow. I am the Chief Executive and Accountable Officer for the Agency and I very much look forward to leading it in producing an integrated transport policy and delivery function for the Scottish Government.

David Middleton
Chief Executive
Transport Scotland

WHO WE ARE AND WHAT WE DO

Transport Scotland was created in 2006 as an Agency of the Scottish Government, accountable to Parliament and the public through the Scottish Ministers, with our Chief Executive reporting directly to the Minister for Transport, Infrastructure and Climate Change.

Transport Scotland is responsible, on behalf of Scottish Ministers, for overseeing the operation and improvement of the trunk road and railway networks, for running the national concessionary travel schemes and for the provision of travel information services. We also support Ministers in prioritising future transport investments.

Our strategic focus is to help the Scottish Government achieve its Purpose of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. Our delivery priorities - improved connections across Scotland; better journey times, better reliability; greener transport alternatives, reduced emissions; and increased safety, more innovation – are all aligned to this end. Taken together, they provide a clear focus to enable us to develop and deliver efficient, effective and sustainable transport infrastructure and services for Scotland.

Our detailed delivery outcomes are set out in our Corporate Plan and annual Business Plans. Delivery against our targets for 2009/10 are summarised on page 13.

Executive Directors

David Middleton	Chief Executive
Frances Duffy	Strategy and Investment
Ainslie McLaughlin	Major Transport Infrastructure Projects
Bill Reeve	Rail Delivery
Jim Barton	Trunk Roads Network Management, Concessionary Travel and Integrated Ticketing
Richard Scott	Business Improvement and Corporate Services
Sharon Fairweather	Finance

Non-executive Directors

Iain Docherty
Jacqueline Redmond

Transport Scotland has six executive Directors who report to the Chief Executive and with him form part of the Executive Board of Transport Scotland, on which they are also supported by two independent non-executive Directors, Professor Iain Docherty and Dr Jacqueline Redmond. The non-executive Directors do not have operational responsibilities and are not civil servants. They are appointed in line with public appointment procedures to bring external perspectives and experience to the organisation. They also constitute the audit committee together with a further external appointee, Eileen Marshall. In May 2009 Scottish Ministers agreed that both non-executive Directors were to extend their terms of service and retain their positions on the board until December 2010.

Richard Scott acted as Director of Finance from November 2008 until August 2009 when Sharon Fairweather was seconded to the role.

DELIVERY AGAINST OUR PRIORITIES: IMPROVED CONNECTIONS

Improving transport connections and services across Scotland is vital in opening up new markets, increasing access to employment and helping to build a critical mass of business that drives up competiveness and delivers sustainable economic growth. In delivering an efficient transport system for Scotland, we aim to ensure that everyone in Scotland benefits by providing effective links between people and between communities, both in rural areas and in parts of our larger cities which might otherwise face a degree of isolation.

During 2009/10 we began the process of identifying the contractor who will build the landmark **Forth Replacement Crossing**. This priority transport infrastructure project is due to open to traffic in 2016 and is now ready to go to the marketplace providing another boost to the hard-pressed construction industry.

In March 2010 utilities work began in Galashiels marking the official start of preparatory construction work on the **Borders Railway** project. This will re-establish passenger railway services for the first time since 1969 from Edinburgh through Midlothian to Tweedbank in the Scottish Borders. The railway will deliver major economic and social development opportunities and offer a fast and efficient alternative to the congested road network.

The **M74 Completion Project** also saw a great deal of activity over the year including the massive civil engineering project to launch the Port Eglinton Viaduct between the end of the existing M74 at Fullarton Road and the M8 south of the Kingston Bridge. The project’s environmental achievements have been recognised, in particular for the re-use of rubble from sites across Glasgow and the recycling of the old carriageway from the existing M74 motorway.

Work on the **M80 Stepps to Haggs** upgrade moved forward with the commencement of main carriageway construction. Highway Management (Scotland) Ltd was appointed contractor for the project. Prior to the year end the project also reached a notable milestone with completion of the new Mollinsburn Overbridge over the M73.

Construction continued throughout the year all along the route of the **Airdrie-Bathgate Rail Link Project** including the first new tracks being laid. This project is on schedule for completion in December 2010.

Other notable achievements in improving connections during the year include:

- a Scottish Government investment of £3.5 million that resulted in the return of passenger trains to **Laurencekirk** for the first time in over 40 years, bringing significant benefits for the local community

- over 400,000 passengers taking advantage of the new **Stirling Alloa Kincardine** railway in its first year, almost four times as many passengers using the service than originally anticipated

- rail commuters in Dunlop and Kilmaurs benefitting from extended half-hourly services between Glasgow and Kilmarnock in this year's **winter timetable** whilst rail passengers across Lanarkshire and the Lothians benefitted from a significant improvement in the service linking Glasgow with Edinburgh via Shotts, with journey times reduced by up to 33 minutes

BETTER JOURNEY TIMES, BETTER RELIABILITY

Making journey times more reliable is one of the main ways in which transport can help build and sustain growth in the economy.

In recent years Transport Scotland has delivered £29 million worth of investments on improvement schemes to the A75 and A77 trunk roads serving the west coast ferry ports of Stranraer and Cairnryan at Loch Ryan. A further £60 million is in the pipeline to deliver eight additional projects that will further improve these routes, including the A75 Cairntop to Barlae. Construction work on this £6.5 million scheme began this year. When opened it will improve the access to and from the west coast ports of Stranraer and Cairnryan and support businesses, communities and tourism across Scotland.

Transport Scotland awarded a £31.5 million contract for the **Fochabers to Mosstodloch** scheme, a new three mile stretch of all-purpose single carriageway on the main road between Aberdeen and Inverness. The A96 is an essential route in the trunk road network and this stretch of new road will improve links for communities locally as well as between the two cities, bringing economic benefit across the north. When completed in Spring 2012, the construction of the bypass will reduce traffic volumes considerably in Fochabers and Mosstodloch while also addressing the adverse environmental impacts for the local community.

Traffic Scotland and Traveline Scotland provide road and public transport users with up to date information 24 hours a day, seven days a week. During 2009/10 Traffic Scotland's web service responded to the challenges of extreme wintry conditions and special events such as "T in the Park" and The Open Championship at Turnberry.

In 2009 the Traffic Scotland website won the Easyway Award for "The Most Original Approach" category, and is recognised as a European leader in the field of the supply of real-time traffic information, promoting effective and innovative methods of communicating traffic information to the public, including its Twitter feed.

In 2009, the number of visits to Traveline Scotland's website increased to 3.3 million, an increase of 96.7% on the previous year. Traveline Scotland is unique in the UK because it is open 24 hours a day, 365 days a year. It is also accessible in user friendly formats in kiosks at railway stations and airports, on mobile devices, direct to digital screens and soon on Google Transit.

Transport Scotland is continuing its investment in the central motorway with a further £4.4 million upgrade to the **M8 between Junction 5 (Shotts) and Junction 6 (Newhouse)** starting with the first of three phases in August 2009. By the time the current programme for this route is achieved in 2011 over £21 million will have been committed since 2007. This latest phase of works will involve upgrading and resurfacing the eastbound carriageway between Newhouse and Duntilland. With almost 57,000 vehicles using this section of the M8 daily, operating company Bear Scotland is aiming to keep drivers informed by launching the first-ever Twitter page for road works in Scotland.

A landslip which caused the temporary closure of the **A83 at the Rest And Be Thankful** was cleared and the road reopened to all traffic just 48 hours after the landslip, minimising inconvenience and disruption to the local community.

Other notable achievements in seeking to improve journey times and reliability include:

- local communities along the A96 between Aberdeen and Inverness benefitted from a £3.3 million road improvement package
- local communities in and around Carrbridge gained real benefits from a £2.7 million improvement package to ease congestion and improve safety
- a £1.2 million programme of investment to improve the Arkleston Bridge over the M8 near Glasgow Airport
- the award of a £2.2 million contract at Ba Bridge on the A82 for replacing the existing narrow sub-standard bridge with a new, modern and safer structure
- also on the A82, Stuckindroin Bridge benefitted from £1.1 million upgrade to widen the bridge as well as improve safety for road users
- a series of measures to improve congestion on the A96 through Elgin was developed by Transport Scotland, BEAR Scotland Ltd and The Moray Council
- on Skye the A87 at An Coileach benefitted from £3 million of maintenance for reconstruction of the road to strengthen and widen 2.7 kilometre from Abhainn Ceann Bridge through Sconser to the junction at Kingdom Hall
- the announcement of investment of around £6 million for a package of improvement works on the A9
- £24 million was made available to enable construction of a new train maintenance and overhaul facility at Shields Road, Glasgow creating up to 40 jobs

GREENER TRANSPORT ALTERNATIVES

Reducing greenhouse gas emissions and achieving changes in both the means and patterns of travel are key challenges in securing sustainable economic growth and a greener Scotland. The environmental impacts of all new transport projects and of the management and maintenance of the trunk road network are considered in the context of the **Climate Change (Scotland) Act 2009** challenging target of reducing emissions by 80% (from 1990 levels) by 2050.

Old surfacing material from motorway maintenance work is being recycled in the construction of the new **M74 Completion**, a project which is committed to the reuse and recycling of aggregate material wherever possible. New initiatives have seen the reuse of 65,000 tonnes of material resulting in a CO2 reduction of 118,000 tonnes, equivalent to the daily output of over 113,300 people - nearly twice the combined population of Rutherglen and Cambuslang through which the route passes.

The Scottish Government announced an investment of £200 million to help deliver a new fleet of **electric trains** which will provide a major boost for rail passengers and encourage commuters onto more sustainable forms of transport.

We have put in place a range of **environmental measures** in our offices at Buchanan House and Atlantic Quay. These include an effective waste recycling system and targets for reducing energy consumption and the use of paper. Over 80% of our staff now commute by sustainable means, such as public transport, cycling and walking. In June 2010 we published an updated travel plan, focusing on reducing our business travel carbon emissions by 15% by 2013.

We continue to invest in the sustainable travel through the Cycling Action Plan for Scotland and the Trunk Road Cycling Initiative. This year we completed the North Sea Cycle Route between Cockburnspath and Dunbar parallel to the A1, built the Glencoe Visitor Centre to North Ballachullish Community Link and completed further sections of the Oban to Fort William National Cycle Network in partnership with SCOTRANS. Planning work for the Great Glen Cycle Route (NCN) continued to programme.

New otter-sized steps and ramps, along with headlight reflectors installed at otter height, were amongst a bundle of measures developed to prevent small mammals from taking a life threatening journey across the **A9 at Pitlochry and Dunkeld**.

INCREASED SAFETY, MORE INNOVATION

We continued to upgrade Scotland's trunk road network in order to further improve safety for road users. Our Strategic Road Safety unit is dedicated to reducing the risk of harm on the network. It monitors the safety performance of the network annually and manages a programme of Accident Investigation and Prevention initiatives at accident black-spots and routes with higher than average accident rates. The Strategic Road Safety unit is developing and implementing a road safety strategy through a series of initiatives and projects undertaking pilot studies and disseminating experience to practitioners throughout Scotland. The unit also facilitates training and instigates debate on best practice and improved standards amongst Road Safety Engineers in Scotland.

Britain’s last remaining single track trunk road, the **‘Road to the Isles’**, was upgraded to double carriageway standard following a £23 million investment. The completion of the upgrade to the **A830** brought vital safety improvements whilst boosting the Highlands’ economy.

An £8 million Transport Scotland road improvement scheme to upgrade the **A7 in Dumfries and Galloway** opened to traffic. The existing winding road on the east bank of the River Esk near Auchenrivock has been replaced by two miles of new carriageway, improving safety and bringing economic benefits to local communities.

The new £2.7 million **A9 Bankfoot Junction** will reduce congestion and improve road safety by removing the need for right-turns at this location.

A Transport Scotland upgrade programme on the **existing M74** saw traffic flows and safety improved through the first ever use of interactive electronic queue monitoring equipment during reconstruction of a section close to Hamilton and Bothwell.

The **M80 Stepps to Haggs** scheme benefitted from enhanced road safety following the installation of fourteen average speed cameras between Mollinsburn and Haggs. The cameras enforce a consistent speed of 40mph, ensuring the safety of both drivers and road workers operating along the hard shoulder and roadside.

Transport Scotland delivers the £187 million Scotland-wide **Concessionary Travel Schemes** for older and disabled people and for young people. Over 1.1 million older and disabled people and around 90,000 young people are now eligible for free or subsidised public transport travel. During 2009/10 we continued the programme of Smartcard-enabled electronic ticket machine rollout to the entire Scottish bus fleet. This is now virtually complete with almost 7,000 machines in use. Passengers will benefit from ease of use of services and bus companies will see speedier and more accurate reimbursement of fares. The schemes will be more efficient to deliver with less exposure to the risk of fraud. In 2009/10 there were a total of 151 million journeys made by older and disabled passengers within the Scotland-wide free bus concessionary travel scheme.

Train stations across Scotland got 'smarter' this year with the launch of **Smart Point machines** at Aberdeen, Edinburgh Waverley, Glasgow Queen Street and Stirling stations. These machines provide interactive travel services, real time journey updates and information via the internet, allowing passengers to plan their journey better. The interactive touch screen offers free access to journey planning, timetables, planned rail engineering works, bus information, cycle guides, routes and local area information.

The A83 at the **Rest and Be Thankful** is an area known for its natural landslides. In order to mitigate the effect of these landslides, we invested £760,000 for a programme of works which include state of the art hillside monitoring equipment as well as the first ever UK use of "Wig Wag" road signs. These signs are designed to flash when there is an increased risk of a landslide. This provides a warning to drivers and other road users to exercise extreme caution when travelling along the road. Debris flow fencing was also installed along a stretch of the A83 to help reduce the risk of future landslide material reaching the roadside.

STRIVING TOWARDS EXCELLENCE

We aim to achieve excellence in all that we do, bringing together all our expertise and working with our partners to develop and implement Scotland's transport priorities. As an organisation we are committed to being engaged with our stakeholders and attuned to their needs, respected for our professional judgement, trusted in our advice and effective in our delivery.

We are active members of the Key Agencies group set up to respond to the Ministerial challenge of **delivering planning reform** which includes Scottish Natural Heritage, Scottish Environment Protection Agency, Architecture and Design Scotland, Scottish Water and Historic Scotland. We set out how we would meet this challenge in a Service Improvement Plan published in 2008 followed by the first annual report published in December 2009. We have improved our active engagement with Development Planning authorities, set out clearly our views on proportionate and practical planning policies and published streamlined transport and land-use appraisal guidance for consultation. Transport Scotland currently achieves a 90% response rate to minor planning applications within 14 days.

As part of the **Access for All** fund, administered in Scotland by Transport Scotland, disabled rail passengers now enjoy full step-free access to all platforms at Dalmuir and Motherwell train stations. As part of the £7 million programme of investment, a new footbridge with three lifts spanning all five platforms has been completed at Dalmuir, while a new footbridge and lift to the one inaccessible platform at Motherwell has also been installed.

We have continued implementing “Roads for All”, our Trunk Road Disability Discrimination Act Action Plan with publication of our “Good Practice Guide” and full training for staff and the Industry. Our rural transport corridor and the technology research demonstration projects continued to be taken forward in co-operation with the Society of Chief Officers of Transportation in Scotland.

The **Service Quality Incentive Regime (SQUIRE)** is one of the toughest regimes of its kind in the UK and is used by Transport Scotland to monitor the quality of service passengers using ScotRail trains and stations have experienced. The regime has expanded with an ever more rigorous application of the standards required, helping to contribute to ScotRail’s improving levels of customer satisfaction.

As part of our ongoing **strive for excellence** in all that we do, we reviewed and enhanced several of our business processes including our financial reporting and payment processes. We also finalised and implemented our ICT strategy, completed the implementation of our risk strategy, delivered an integrated communications strategy and prepared a Business Improvement Plan to review and improve internal systems and processes. We also implemented a quality management system and audit regime for Rail Delivery which we will now consider rolling out to all business areas.

BUSINESS PLAN 2009/10 KEY ACHIEVEMENTS

Our Business Plan for the year to 31 March 2010 committed Transport Scotland to delivering a number of key achievements as follows:-

BUSINESS PLAN 2009/10 TARGETS	Progress
Improved connections across Scotland	
Design and develop a replacement Forth Crossing	Achieved: Parliamentary Bill introduced and procurement commenced
Work with colleagues in Scottish Government and with Local Authority partners, to improve the integration of transport and land use planning	Achieved: Transport Scotland Service Improvement Plan published and implemented
Following completion of the Strategic Transport Projects Review and its Strategic Environmental Assessment, develop a future programme of investment in key transport projects, road, rail and other public transport across Scotland to be delivered in 2012-2022	Achieved: good progress made in 09/10
Build the railway to Glasgow Airport in time for the Commonwealth Games	Airport branch line cancelled 09/10 Tasks Achieved: Glasgow Central platform construction and Paisley Corridor Infrastructure works commenced
Deliver a new, electrified railway between Edinburgh and Glasgow linking Bathgate and Airdrie and allowing for direct rail services to run from Lanarkshire to Edinburgh and West Lothian to Glasgow	Ongoing: on-target for project completion in December 2010
Deliver a new interchange between the rail and tram networks providing connections to Edinburgh Airport and the West Edinburgh Development Area	Ongoing: outline design completed, detailed design linked to progress with Edinburgh tram project
Deliver a new railway from Stirling to Alloa and Kincardine	Achieved: new peak services delivered
Support the delivery of the Edinburgh Tram Project	Ongoing: funding commitments met
Work on the A90 including commencing work on the Aberdeen Western Peripheral Route and completing the dual carriageway from Balmedie to Tipperty	Partly Achieved: 09/10 tasks achieved, AWPR subject to legal challenge
Begin construction of the railway to the Borders	Achieved: construction commenced March 2010
Enhance rail and road connections in the Highlands including key connections to Inverness and planning for the dualling of the A9 between Perth and Inverness	Partly Achieved: 09/10 tasks mainly achieved, some project slippage
Continue to develop and improve railway stations	Achieved: good progress made in 09/10
Better journey times, better reliability	
Invest in the maintenance and improvement of the trunk road network, targeting improvements to reduce congestion and investing in new technology to improve journey reliability	Achieved: good progress made in 09/10
Complete construction of the M74 in Glasgow	Ongoing: on-target for early project completion
Work with Network Rail and First ScotRail to reduce rail journey times and improve train service frequencies	Achieved: good progress made in 09/10
Take forward the Edinburgh to Glasgow Improvements Programme to enhance the rail network in the Central Belt	Achieved: good progress made in 09/10
Extend and enhance the systems underpinning Traffic Scotland and Traveline Scotland to improve the delivery of travel information, trunk road traffic control, and "smarter" integrated ticketing	Partly Achieved: 09/10 tasks mainly achieved, some project slippage

Greener transport alternatives reduced emissions	
Provide more sustainable public transport alternatives to the private car	Achieved: good progress made in 09/10
Increase electrification of the rail network	Achieved: good progress made in 09/10
Improve rail journey times between our main cities	Achieved: good progress made in 09/10
Encourage the move of freight from road to rail	Slippage in development of freight policy
Deliver a new fleet of efficient electric trains	Achieved: good progress made in 09/10
Maximise the use of the national concessionary travel schemes	Achieved: good progress made in 09/10
Develop micro-generation, solar and wind-powered generators for trunk road equipment	Achieved: good progress made in 09/10
Lead the way in reducing emissions and adapting to climate change	Achieved: good progress made in 09/10
Increased safety, more innovation	
Continue to improve the safety of Scotland's trunk road network through the delivery of the Strategic Road Safety Plan	Achieved: good progress made in 09/10
Develop and introduce innovative ways of improving the road and rail networks, for example overtaking lanes and flyover junctions	Partly Achieved: some project slippage
Provide a range of safety enhancements on the A9 and on the A75 and A77 routes serving the key ferry terminals to Ireland	Achieved: 09/10 tasks mainly achieved, some project slippage
Deliver efficiency savings in excess of £150 million over the three-year period of this plan	Achieved: efficiency savings of over £60 million delivered
Enable customers to use the latest smart technology in order to travel as seamlessly as possibly by fitting all 7,000 buses in Scotland with new ticket machines	Partly Achieved: 95% of buses smart enabled
Strive for excellence in everything we do	
Work closely with partners including all Scottish Local Authorities and Regional Transport Partnerships to deliver integrated transport solutions which support the local and national outcomes as set out in Single Outcome Agreements	Achieved: good progress made in 09/10
Work with UK Government and wider transport industry bodies to ensure efficient and affordable outcomes for Scotland	Achieved: good progress made in 09/10
Manage and monitor the First ScotRail Franchise	Achieved: good progress made in 09/10
Work with Network Rail to facilitate its delivery of operation, maintenance and renewal targets as determined and enforced by the Office of Rail Regulation	Achieved: good progress made in 09/10
Improve transport capacity and resilience	Achieved: good progress made in 09/10
Improve business processes	Achieved: good progress made in 09/10
Ensure that equalities and cultural issues underpin all of Transport Scotland's activities	Achieved: good progress made in 09/10

ANNUAL ACCOUNTS

Management Commentary

Financial Statements
The financial statements cover the period from 1 April 2009 to 31 March 2010. They have been prepared in accordance with a Direction given by the Scottish Ministers in pursuance of the Public Finance and Accountability (Scotland) Act 2000, and in accordance with the HM Treasury Financial Reporting Manual (FReM). As Transport Scotland is an Executive Agency of the Scottish Government, the financial statements are consolidated within the Scottish Government Consolidated Resource Accounts.

Transport Scotland's Annual Review and Accounts are published on the Agency website at: www.transportscotland.gov.uk, and the Scottish Government Consolidated Resource Accounts at www.scotland.gov.uk.

Significant accounting policies
Those areas of Transport Scotland's financial statements where accounting judgements have significant impact are outlined below:

- **Valuation of the Road Network**
  The road network is valued on the basis of current replacement cost, adjusted to reflect the current condition of the road component and the depreciation of structures and communications assets. To produce this valuation requires the use of assumptions, estimates and professional judgement. The model used to produce the valuation is known as the UK Asset Valuation System (UK-AVS), run by a firm of external consultants (EC Harris LLP) and uses a series of standard costs to value the asset and indices to uplift land and the cost of road construction on an annual basis.

- **Recognition and the valuation of provisions**
  Due to the long term nature of Transport Scotland's road and rail improvement schemes certain assumptions and judgements are made relating to land acquisition and compensation claims and are based on a variety of data sources and experience.

- **Private Finance Initiatives (PFI) – the balance of risk**
  Transport Scotland has two PFI agreements (M77 & M74/M6) for the provision of new roads infrastructure and the ongoing maintenance of this infrastructure. These contracts are for fixed terms, typically thirty years, the overall control of which has been judged to lie with Transport Scotland. Correspondingly, these assets are present on Transport Scotland's balance sheet (Now referred to as Statement of Financial Position – SFP) to account for their ownership, assessed according to the relevant IFRS Accounting guidance (IFRIC 12).

Rail infrastructure in Scotland
The Railways Act 2005 transferred the responsibility for specifying and funding rail infrastructure in Scotland to the Scottish Ministers from 1 April 2006. This was accompanied by a budget transfer from the Department for Transport (DfT).

First Scotrail has been operating rail services under the Franchise Agreement since August 2004 and has been exceeding contract performance benchmarks. In April 2008, Scottish Ministers activated a provision under the terms of the original agreement to extend the First Scotrail Franchise by 3 years. In extending the contract to 2014, Scottish Government is providing continuity for the ongoing delivery and improvement of rail services in Scotland.

In October 2008 the Office of the Rail Regulator (ORR) published its final determination for the control period 1 April 2009 to 31 March 2014. This sets out what Network Rail will need to deliver and the funding that it will receive for doing this.
Major rail projects, which are capital in nature, are funded by Transport Scotland but as the control of the economic benefits arising from the use of these assets does not ultimately lie with Transport Scotland, the assets in question are accounted for on Network Rail's balance sheet/SFP.

Funding
Resources to fund Transport Scotland's day-to-day costs and capital investment programme are allocated in accordance with the Budget (Scotland) Act 2009 which authorised both the Scottish Government's and Transport Scotland's spending plans for the financial year 2009/10.

Private sector funding is also available under PFI and Public Private Partnership arrangements for major road and rail capital schemes. The choice between public and private funding is made on an assessment of value for money on a scheme-by-scheme basis.

Rail major projects may also be funded by borrowing through Network Rail. This is a recognised method for funding rail projects and it will play an increasing part in the rail programme for Transport Scotland during the contractual period from 2009 to 2014.

Financial performance and use of resources
Transport Scotland was allocated resources by the Scottish Ministers for 2009/10 of **£2,261m.** Of this £589m represents a notional charge for the cost of capital for the road network, with the remaining £1,672m representing the Agency's operating budget. The final outturn for the year against the individual budget areas is shown below. These budgets form part of the Departmental Expenditure Limit (DEL), Annually Managed Expenditure (AME) and expenditure Outwith the DEL (ODEL) budgets of the Scottish Government Finance and Sustainable Growth portfolio. The outturn against DEL represents a variance of less than 1% and is offset by underspends elsewhere. The overall underspend of £43,571k represents less than 2% of the overall budget.

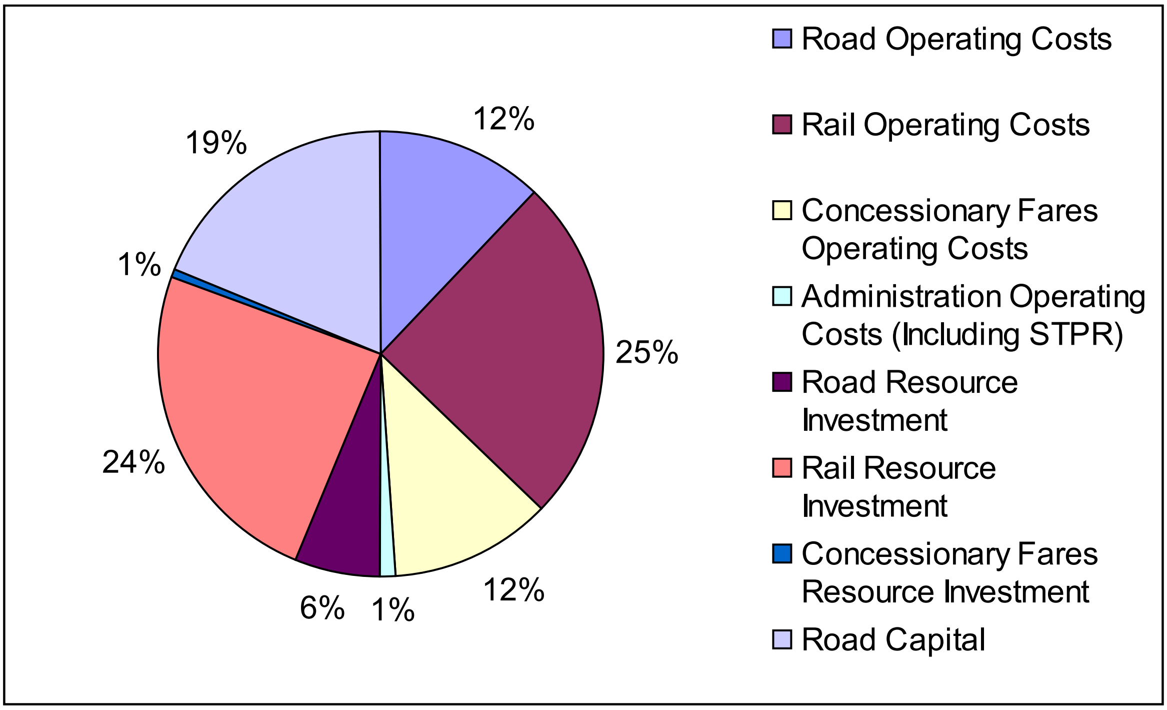
Transport Scotland 2009/10	Actual £'000	*Budget £'000	Variance £'000
Resource - Operating Costs	738,246	762,342	(24,096)
Resource – Investment	510,075	519,000	(8,925)
Non-Cash	81,037	57,008	24,029
Capital	308,977	286,300	22,677
DEL total	**1,638,335**	**1,624,650**	**13,685**
Cost of Capital (notional AME)	538,170	589,084	(50,914)
Expenditure on PFI schemes (ODEL)	40,943	47,285	(6,342)
Total	**2,217,448**	**2,261,019**	**(43,571)**

* Spring Budget Revision figures

Spending is categorised as either capital or resource with separate budgetary cover for each. Resource is further sub-divided into investment in infrastructure (which although may be capital in nature cannot be accounted for as such within Transport Scotland's accounts) and resource for consumption (operating costs).

Transport Scotland has a significant infrastructure investment programme which allocates funding to our major rail and major road projects as well as ongoing maintenance costs in the existing road and rail infrastructure.

Actual expenditure in 2009/10, excluding cost of capital, is analysed below by operational area within Transport Scotland:



Almost all of Transport Scotland's budget is spent, either directly or indirectly, with private sector companies. Less than 1% of the budget is utilised on the ongoing Agency running costs (contained within administration operating costs).

The total asset value of Transport Scotland is £16bn, almost all of which relates to the trunk road network asset.

Future Spending Plans
The Scottish Budget Spending Review 2007 (SR07) has set annual spending plans from 2008/09 to 2010/11. The plans are intended to give more focus on long-term outcomes for Scotland and are reviewed annually to cope with changing conditions over the 3 year period. The current annual spending plans for the last remaining year of SR07 are:

	2010/11 £ m**
Resource – Operating Costs	840.1
Resource – Investment	498.1
Non-Cash	51.1
Capital	190.1
Total	**1,579.4**
Cost of Capital (notional)	649.1
Total	**2,228.5**

****Source- SR07**

International Financial Reporting Standards (IFRS) implementation
In April 2009 the Agency adopted IFRS in accordance with the FReM and budgets were re-stated in the Scottish Spring Budget Revision for 2009-10, where the Scottish Government agreed IFRS amendments required. The main changes resulting from IFRS adoption were the capitalisation of expenditure on roads schemes and accounting for the assets financed by PFI schemes in the Statement of Financial Position.

Relationship with suppliers
Transport Scotland is committed to prompt payment of bills for goods and services received, and aims to settle all undisputed invoices within contract terms. Since October 2008 we have also aspired to a 10-day target for paying bills to businesses in Scotland. This aspiration is above and beyond our contractual commitment. Transport Scotland aims to pay 100% of invoices, including disputed invoices once the dispute has been settled, on time in these terms. For financial year 2009/10, Transport Scotland made 91% of all payments within 10 days. The payment performance of Transport Scotland was 98.7% (2008/09: 97.7%) of all transactions settled within the terms of our contractual 30 day payment policy.

Concessionary Travel Scheme
Within the 2009/10 revised Concessionary Travel budget of £190.95m, the statutory budget limit for the Scotland Wide Free Bus Concessionary Travel Scheme for Older and Disabled People was set at £187m. As bus operator claims within the free scheme in 2009/10 did not exceed £187m, adjustments of payments to bus operators were not necessary.

Our People
Transport Scotland follows the policies of the Scottish Government in a number of areas including:

- Equal Opportunities[1]
- Recruitment[2]
- Disability Equality[3]

We have a performance management system, designed to create a high performing organisation that is well equipped to meet day-to-day and future challenges, to improve the way we work and the quality of service we provide to Ministers and the people of Scotland.

We also work with the Scottish Government's Employee Engagement team, to ensure our staff feel valued and recognised whilst having the opportunity to contribute fully towards success in their area and across the Scottish Government as a whole.

The average number of disabled employees employed by Transport Scotland over the year to 31 March 2010 was 11 (2008/09: 10). In 2009/10 an average of 7.46 (FTE) days sickness leave was reported by Transport Scotland (2008/09: 7.62 (FTE)).

Sustainability Reporting
Over the last year, Transport Scotland has focused on three elements concerning sustainability: namely a Sustainability Review, a Carbon Management System and assessment of candidate Noise Management Areas within our scope. The Sustainability Review is the culmination of 20 months of work to review our processes, procedures and practices related to carbon, energy, waste and materials (CEWM) across our design, procurement, construction and maintenance operations covering upstream and downstream activities undertaken by Transport Scotland. Over 30 short, medium and long term recommendations have been identified. The coming year will encompass implementation of selected recommendations with potential for widening the sustainability agenda within Transport Scotland beyond the CEWM scope. With carbon management being a strand of the Sustainability Review, Transport Scotland has developed a Carbon Management System in conjunction with Halcrow over the last 12 months. It is an Excel-based series of tools which capture raw consumption via a carbon footprint calculator to measure, monitor and report on our operational and project carbon footprints. Such data will support future carbon reduction optimisation in the design decision making process.

Transport Scotland and Transport Directorate Merger
As part of its Shaping Up Review, the Scottish Government reviewed the organisation of transport related areas. The findings of this review, published in April 2010, announced the merger of Transport Scotland with the Scottish Government Transport Directorate. This will result in a new, single transport Agency covering all

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[1] See: http://www.scotland.gov.uk/About/Recruitment/Diversity
[2] See: http://www.scotland.gov.uk/About/Recruitment/RecruitmentCode
[3] See: http://www.scotland.gov.uk/Publications/2008/05/DES2008

of the Scottish Government's transport responsibilities. The merger took place on 2 August 2010.

The merger will result in budgets and expenditure being absorbed into the one new body and financial reporting will be reviewed accordingly. Annual expenditure by the Transport Directorate in 2010/11 will be £278m (per Budget Scotland Bill 2010/11).

Board Members' Interests
Board members' interests are recorded in a "Register of Interests" maintained on the Scottish Government electronic HR system. A copy of this Register is available on request. The 2009/10 assurance letters on internal control, which all Directors in post as at 31 March 2010 completed, also confirmed that no conflict of interest arose in the exercise of their duties.

Appointed Auditors
The accounts for 2009/10 are audited by auditors appointed by the Auditor General for Scotland. Audit Scotland carried out this audit and the notional fee for this service was £207k, which related solely to the provision of the statutory audit service.

Freedom of Information
The Freedom of Information (Scotland) Act 2002 aims to make information held by public authorities more accessible. The Agency acts in the spirit of openness, to provide information (unless exempt) within 20 working days, to provide advice and assistance to the applicants, and to proactively publish information under its Publication Scheme.

Significant events since the end of the financial year
The only significant event since the end of the financial year relates to the Edinburgh Trams Project. Transport Scotland makes a capped contribution to the costs of the project, with payments made via City of Edinburgh Council (CEC). In June 2010 CEC indicated that it was unlikely that it would be able to complete the project as intended within the agreed funding. At the time of drafting this report CEC is considering options as to how to proceed, but the outcome and implications of the options appraisal are not yet known.

David Middleton

David Middleton
Chief Executive
Date: 11 October 2010

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set in accordance with the rules set out in chapter 7.1, Annex A of the Civil Service Management Code and in conjunction with independent advice from the Senior Salaries Review Body (SSRB). In reaching its recommendations, the SSRB is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the Government's departmental expenditure limits
- the Government's inflation target

Performance based pay awards are based on an assessment of performance against objectives agreed between the individual and line manager at the start of the reporting year. Performance will also have an effect on any bonus element awarded.

Further information about the work of the SSRB can be found at: www.ome.uk.com/Senior_Salaries_Review_Body.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioner's Recruitment Code, which requires appointment to be made on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age. The retirement age for the Senior Civil Service rose from 60 to 65 from 1 October 2006 in line with the implementation of the Employment Equality (Age) Regulations 2006. However, once an individual's pension becomes payable, from age 60, that employee can choose to leave work and draw his or her pension at any time, subject only to compliance with the basic notice of leave requirements.

The rules for termination are set out in chapter 11 of the Civil Service Management Code. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.org.

During the year Sharon Fairweather was seconded from Deloitte to fill the position of Director of Finance. Sharon took up her position in August 2009.

Transport Scotland has two non-executive Directors. Independent non-executive Directors bring an external perspective to the consideration of corporate management issues. Non-executive Directors are appointed by the Chief Executive for an initial period of three years following an open competition. Such appointments can be terminated at one month's notice period.

There is no provision for compensation for early retirement. Additionally, the non-executive Directors do not participate in the Civil Service pension scheme.

Prof Iain Docherty and Dr Jacqueline Redmond will have served as non-executive Directors for the maximum term in December 2010.

Remuneration Group
For senior civil servants, Transport Scotland's remuneration committee is the Scottish Government's Remuneration Group. This Remuneration Group has six members, two of whom are non-executive Directors. Their remit is to consider:

- annual pay proposals for Chief Executives and Board Members and make recommendations to Ministers
- annual guidelines for flat rate increases for Chief Executives and Board Members and consider the Public Sector Pay policies which will apply for the annual pay round and make recommendations to Ministers
- pay remits which look at pay proposals for public bodies in Scotland

The Remuneration Group, will as a minimum, report annually to the Strategic Board.

The following section of the Remuneration Report pertaining to salaries and pensions is subject to audit.

Salary
Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Where a director has joined or left the management board during the year, their salary reflects only that which they received whilst a member of the board. Where an individual has been a member of the Board for only part of the year but they have been employed by the Agency throughout the year, their annual salary has been reported on a "days served" basis as well as the full year equivalent salary.

Any amounts payable on early termination of a contract will be in accordance with the individual's circumstances.

Benefits in kind
The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Fees
Non-executive Directors are entitled to receive fees for regular attendance at monthly board meetings and quarterly Transport Scotland Audit Committee

meetings. Non-executive Directors expenses incurred in attending these meetings are also reimbursed.

The fees which the non-executive Directors of Transport Scotland are entitled to are as follows:

	£000
Dr Jacqueline Redmond	5.4
Prof Iain Docherty	5.4

Executive Director Salary Information

The salary and the value of any taxable benefits in kind of the Corporate Board Members were as follows:

	2009/10	**2009/10**	**2008/09**	**2008/09**
	Salary & Performance Related Pay (excl Pension Contributions)	**Benefits in Kind (To nearest £100)**	**Salary & Performance Related Pay (excl Pension Contributions)**	**Benefits in Kind (To nearest £100)**
	£'000 (Bands of £5,000)	**£**	**£'000 (Bands of £5,000)**	**£**
Chief Executive				
Malcolm Reed (retired 17.02.09)			175-180	Nil
David Middleton (1)	100-105	Nil	15-20	Nil
Directors				
Jim Barton	70-75	Nil	70-75	Nil
Frances Duffy	75-80	Nil	70-75	Nil
Ainslie McLaughlin	75-80	Nil	75-80	Nil
Bill Reeve	100-105	Nil	100-105	Nil
Richard Scott (joined 01/08/08) (2)	65-70	Nil	40-45	Nil
Guy Houston (resigned 28.11.08) (3)				

Salaries include Performance Related Pay earned in the prior year and paid in the current year

(1) David Middleton's annual equivalent salary for 2008/09 is in the range £100k - £105k (excluding PRP).
(2) Richard Scott joined Transport Scotland on 1 August 2008 as Director of Business Improvement, his annual equivalent salary for 2008/09 is in the range £60k - £65k.
(3) Guy Houston resigned from his position as Director of Finance and Corporate Services on 28 November 2008. Permission to disclose details of his salary was withheld. Since his departure Richard Scott combined his role in Business Improvement with that of interim Director of Finance & Corporate Services.
(4) Sharon Fairweather joined Transport Scotland as Finance Director on secondment from Deloitte on 1 August 2009. The costs paid to Deloitte excluding irrecoverable VAT for the period to 31 March 2010 was £100,000 (annual equivalent cost £150,000).

Pensions

Accrued pension represents the director's total future entitlement to benefits payable from the Civil Service pension schemes based on reckonable service at 31 March 2010. The accrued pension includes service previous to becoming a board member and/or service in other departments.

The cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV payment is made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves the scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures and the other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in CETV quoted in the table below represents the real increase funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of period.

The Chief Executive and all Directors, except Bill Reeve and Sharon Fairweather, are members of the Principal Civil Service Pension Scheme (PCSPS) which provides benefits on a final salary basis at the normal retirement age. Transport Scotland's contributions to the scheme in respect of the Management Board amounted to £104,962 for the year to 31 March 2010. Bill Reeve is a member of the Railways Pension Scheme and Transport Scotland's contributions to that scheme were £20,528 for the year to 31 March 2010. Transport Scotland does not make any separate contribution in respect of pension for Sharon Fairweather.

Further details on the different schemes available to employees can be found in note 3.

The pension entitlements of the Executive Directors of Transport Scotland are shown in the following table:

	Lump Sum at age 60 as at 31 March 2010	**Real Increase in Lump Sum at age 60**	**Accrued Pension at age 60 as at 31 March 2010**	**Real Increase in Pension at age 60**	**CETV as at 31 March 2010**	**CETV as at 31 March 2009**	**Real Increase in CETV in 2009/10**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
David Middleton	125-130	10-15	40-45	2.5-5	860	736	81
Jim Barton	80-85	0-5	25-30	0-2.5	620	558	26
Frances Duffy	65-70	0-5	20-25	0-2.5	431	384	22
Guy Houston							
Ainslie McLaughlin	80-85	0-5	25-30	0-2.5	568	509	26
Bill Reeve	30-35	0-5	35-40	0-2.5	489	464	*n/a
Richard Scott	20-25	0-5	5-10	0-2.5	187	162	25

Calculated on age 60 where pension entitlement due at that age or current age if over 60
*** Information from the Railways Pension Scheme was not provided in this format**

The above pension data was supplied to Transport Scotland from the Department of Work & Pensions (DWP) for all of the Directors with the exception of Bill Reeve for whom information was supplied by the Railway Industry Pension Scheme.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

David Middleton
Chief Executive
Date: 11 October 2010

STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

In accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, the Scottish Ministers have directed Transport Scotland to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction. The Accounts Direction is reproduced at Annex A to these financial statements.

The accounts are prepared on an accruals basis and must show a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts, the Agency is required to:

- observe the accounts direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis

- make judgements and estimates on a reasonable basis

- state where applicable accounting standards have been followed and disclose and explain any material departures in the financial statements

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that Transport Scotland will continue in operation

The Principal Accountable Officer for the Scottish Administration has designated the Chief Executive of Transport Scotland as the Accountable Officer for the Agency. His relevant responsibilities as the Accountable Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records are set out in the Memorandum to Accountable Officers issued by the Scottish Government.

STATEMENT REGARDING DISCLOSURE OF INFORMATION TO THE AUDITORS

As Accountable Officer I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that Audit Scotland have been made aware of that information in connection with their audit. Insofar as I am aware there is no relevant audit information of which Audit Scotland is unaware.

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Transport Scotland's policies, aims and objectives set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned. This is in accordance with the Scottish Public Finance Manual (SPFM) issued by Scottish Ministers to provide guidance on the handling of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness and promotes good practice and high standards of probity.

The purpose of the system of internal control
The system of internal control is designed to manage rather than eliminate the risk of failure to achieve Transport Scotland's policies, aims and objectives. I can therefore only provide reasonable and not absolute assurance of its effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise these risks, to evaluate the likelihood and impact of them being realised, and to manage them efficiently, economically and effectively. This system of internal control has been in place in Transport Scotland for the year ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts. It is in accordance with the guidance from Scottish Ministers.

The risk and control framework
I have established a framework of responsibility for risk management, in accordance with the SPFM, with appropriate support, guidance and procedures from all parts of the Agency's business:

- the Transport Scotland Executive Board reviews strategic and operational risks to the Agency's business and this is a regular agenda item at the monthly Executive Board meeting
- managers identify and evaluate risks to successfully deliver the Agency's operation and control objectives when they prepare and monitor directorate and business management plans
- I hold regular meetings with Ministers where both strategic and operational risks are discussed
- my staff work closely with their counterparts in the Scottish Government's Transport Directorate to ensure that risk management systems are compatible, there is clear accountability for managing risks, joint action is taken where appropriate to manage risks, and the Scottish Government is kept informed of risks as appropriate

A high level Risk Strategy is now in place setting out a consistent approach to the implementation of risk management within Transport Scotland at strategic, programme and project levels. The Transport Scotland Risk Management Committee is responsible for developing and maintaining the Corporate Risk Register and for facilitating the ongoing production and management of risk registers within project teams and Directorates and for enhancing the management of risk across all areas of the business.

The Transport Scotland Audit Committee is currently chaired by one of the non-executive Directors, Dr Jacqueline Redmond, and its remit includes review of the risk management and strategy adopted across the organisation.

Review of effectiveness
As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. This is informed by the work of the internal auditors, the executive

managers within the Agency, the Audit Committee and the external auditors in their management letter and other reports.

Assurance on the maintenance and review of internal control systems is provided by each of the Directors within Transport Scotland who submit an annual certificate of assurance covering their areas of responsibility to myself as Accountable Officer.

Risks to information are managed and controlled and the Agency is meeting the mandatory requirements set out in the Security Policy Framework developed by the Cabinet Office.

Transport Scotland's Internal Auditors (whose work is undertaken to Government Internal Audit Standards) submit regular reports to the Audit Committee which provide an independent opinion on the adequacy and effectiveness of the organisation's system of internal control together with any recommendations for improvement. The three categories of assurance used in these reports are substantial, reasonable and limited assurance.

I will ensure that any follow up work will be carried out in the coming year to deal with the points raised in the audits where a rating of less than substantial assurance has been awarded.

The Performance Audit Group (Halcrow working in association with Pricewaterhouse Coopers and Scott Wilson Plc) perform an external assurance role for all trunk road maintenance work.

INTERNAL AUDIT REPORTS 2009-10

	Audit Area & Scope	**Outcome**
1	Review of Integrated Ticketing	**Assurance provided: N/A** No assurance on the risk, control and governance arrangements in place over Integrated Ticketing was given as the process is still in its infancy and should not be measured on these categories.
2	Rail Delivery: Business Planning and Budgetary Control	**Assurance provided: Substantial** In general, controls were found to be good, and audit recommendations were intended to strengthen the existing controls. In particular Internal Audit were impressed by the level of work undertaken to provide budgetary control figures.
3	Concessionary Fares	**Assurance provided: Substantial** In general, controls were found to be fair, and audit recommendations were intended to strengthen the existing controls.
4	Review of Key Performance Indicators	**Assurance provided: Reasonable** In general, controls over these reporting processes were found to be fair, and audit recommendations were intended to provide management with a basis for their delivery on creation of KPIs.
5	PAG and Financial Monitoring	**Assurance Provided: Substantial** In general, controls were found to be good, and audit recommendations were intended to strengthen the existing controls. Recommendations to provide a timeline for completion of and implementation of processes and procedures to ensure control over the issue of employer's instructions and invoice reconciliation.

In addition to the above Reports, Internal Audit conducted follow-up reviews on:

Road Construction 2007/08 Audit
Land Acquisition and Disposal Review 2008/09
Road Scheme Design 2008/09 Audit
Bridge Maintenance and Data Migration Audit 2008/09
Corporate Governance Review 2008/09

As a result of this work a total of six remaining outstanding recommendations were identified that will be followed up in 2010/11.

I have set objectives for the Executive Directors within Transport Scotland to undertake a regular review process to ensure that improvement to the assurance and control environment within Transport Scotland is monitored closely and, where appropriate, actions are in place to address any weaknesses identified to ensure the continuous improvement of the system.

David Middleton
Chief Executive
Date: 11 October 2010

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to Transport Scotland, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Transport Scotland (the Agency) for the year ended 31 March 2010 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Operating Cost Statement, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to Agency Board Members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Agency, Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and that part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. I report to you whether, in my opinion, the information which comprises the Management Commentary is consistent with the financial statements. I also report whether in all material respects

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and

- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

In addition, I report to you if, in my opinion, the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with Scottish Government guidance and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's Introduction, Who We Are and What We Do, Delivery Against Our Aims, and Business Plan 2009/10 Targets and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the directions made thereunder by the Scottish Ministers, of the state of affairs of Transport Scotland as at 31 March 2010 and of the net operating cost, changes in taxpayers' equity and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and

- information which comprises the Management Commentary is consistent with the financial statements.

Regularity

In my opinion in all material respects

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and

- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Bill Convery, CPFA
Assistant Director
Audit Scotland
Osborne House
1 Osborne Terrace
Edinburgh
EH12 5HG

Date: 14 October 2010

Operating Cost Statement for the year ended 31 March 2010

	note	£'000 Staff costs	£'000 Other Costs	£'000 Income	31 March 2010 £'000 Total	31 March 2009 £'000 Total
Administration Costs						
Staff Costs	3	10,483	0	0	10,483	10,388
Other Administration Costs	4	0	5,497	0	5,497	5,750
Operating Income	6	0	0	(77)	(77)	(77)
Total Administration Costs		10,483	5,497	(77)	15,903	16,061
Programme Costs						
Staff Costs	3	4,121	0	0	4,121	3,672
Programme Costs	5	0	1,888,632	0	1,888,632	1,853,880
Income	6	0	0	(185)	(185)	(9,266)
Total Programme Costs		4,121	1,888,632	(185)	1,892,568	1,848,286
Totals		14,604	1,894,129	(262)	1,908,471	1,864,347
Net Operating Costs					**1,908,471**	**1,864,347**

All income and expenditure is derived from continuing activities.

Statement of Financial Position as at 31 March 2010

	note	£'000	31 March 2010 £'000	£'000	31 March 2009 £'000	£'000	1 April 2008 £'000
Non-current assets							
Property, Plant & Equipment	7	16,029,642		15,148,975		14,845,640	
Intangible Assets	8	13		0		3	
Financial Assets		0		0		0	
Total non-current assets			16,029,655		15,148,975		14,845,643
Current assets							
Trade and other receivables	9	2,989		3,835		2,636	
Other current assets	9	54,943		55,977		40,456	
Cash & cash equivalents		0		0		0	
Total current assets			57,932		59,812		43,092
Total assets			16,087,587		15,208,787		14,888,735
Current liabilities							
Provisions	11	(31,314)		(37,976)		(20,070)	
Trade payables	10	(419)		(504)		(2,337)	
Other payables	10	(161,999)		(71,825)		(136,529)	
Financial liabilities	10	(4,377)		(4,068)		(3,781)	
Total current liabilities			(198,109)		(114,373)		(162,717)
Total assets less current liabilities			15,889,478		15,094,414		14,726,018
Non-current liabilities							
Provisions	11	(37,900)		(30,545)		(46,830)	
Other payables	10	(9,189)		(11,266)		(5,017)	
Financial liabilities	10	(199,875)		(204,251)		(208,319)	
Total non-current liabilities			(246,964)		(246,062)		(260,166)
Assets less liabilities			15,642,514		14,848,352		14,465,852
Taxpayers' equity							
General Fund	SCITE		8,315,064		8,160,335		7,938,057
Donated Asset Reserve	SCITE		890		967		1,044
Revaluation Reserve	SCITE		7,326,560		6,687,050		6,526,751
Total taxpayers' equity			15,642,514		14,848,352		14,465,852

David Middleton

David Middleton
Chief Executive
Date: 11 October 2010

The notes on pages 37 to 67 form part of these accounts

Cash Flow Statement for the year ended 31 March 2010

	note	2009/10 £'000	2008/09 £'000
(A) Cash flows from operating activities			
Net operating cost	OCS	(1,908,471)	(1,864,347)
Adjustments for non-cash transactions	4/5	626,135	583,596
(Increase)/ Decrease in trade and other receivables	12	1,879	(16,719)
Increase/ (Decrease) trade payables	12	88,012	(60,193)
Use in provisions	12	693	1,620
Release of donated assets	SCITE	(77)	(77)
Less movement in payables for items not passing through the OCS		274	0
Adjustment for the interest element of the PFI contract	5	(14,461)	(14,730)
Net cash outflow from operating activities		(1,206,016)	(1,370,850)
(B) Cash flows from investing activities			
Purchase of property, plant and equipment		(280,752)	(151,853)
Capital Element of Land Provision		(37,932)	(50,245)
Net cash inflow/(outflow) from investing activities		(318,684)	(202,098)
(C) Cash flows from financing activities			
Funding from the Scottish Government	SCITE	1,504,600	1,552,760
Capital element of payments in respect of finance leases and on balance sheet PFI contracts		5,639	5,458
Interest element of the PFI contracts	5	14,461	14,730
Net Financing		1,524,700	1,572,948
Net Increase/ (Decrease) in cash and cash equivalents in the period		0	0
Cash and cash equivalents at the beginning of the period		0	0
Cash and cash equivalents at the end of the period		0	0

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2010

	note	General Fund £'000	Revaluation Reserve £'000	Donated Asset Reserve £'000	Total Reserves £'000
Balance at 31 March 2008		7,930,197	6,459,752	1,044	14,390,993
Changes in accounting policy		7,860	66,999	0	74,859
Restated at 01 April 2008		7,938,057	6,526,751	1,044	14,465,852
Changes in taxpayers' equity for 2008-09					
Net gain/(loss) on revaluation of property, plant and equipment		0	218,449	0	218,449
Net gain/(loss) on revaluation of intangible assets		0	0	0	0
Net gain/(loss) on revaluation of investments		0	0	0	0
Net gain/(loss) relating to prior years		(16,670)	0	0	(16,670)
Realised element of the revaluation reserve		34,459	(34,459)	0	0
Receipt of donated assets		0	0	0	0
Release of reserves to the operating cost statement		0	0	(77)	(77)
Non-cash charges - cost of capital	5	510,340	0	0	510,340
Non-cash charges - auditors remuneration	4	193	0	0	193
Consolidated Fund Standing Services		0	0	0	0
Transfer between reserves		0	0	0	0
First time adoption of IFRS adjustments		5,543	(23,691)	0	(18,148)
Net operating cost for the year	OCS	(1,864,347)	0	0	(1,864,347)
Total recognised income and expense for 2008/09		(1,330,482)	160,299	(77)	(1,170,260)
Funding from Scottish Government		1,552,760	0	0	1,552,760
		8,160,335	6,687,050	967	14,848,352
Changes in taxpayers' equity for 2009-10					
Net gain/(loss) on revaluation of property, plant and equipment		0	0	0	0
Net gain/(loss) on revaluation of intangible assets		0	0	0	0
Net gain/(loss) on revaluation of investments		0	0	0	0
Net gain/(loss) relating to prior years		0	0	0	0
Realised element of the revaluation reserve		64,978	(64,978)	0	0
Receipt of donated assets		0	0	0	0
Release of reserves to the operating cost statement		0	0	(77)	(77)
Non-cash charges - cost of capital	5	532,566	0	0	532,566
Non-cash charges - auditors remuneration	4	207	0	0	207
Consolidated Fund Standing Services		0	0	0	0
Transfer between reserves		0	0	0	0
First time adoption of IFRS adjustments		0	0	0	0
Non-current assets Adjustments		(39,151)	704,488	0	665,337
Net operating cost for the year	OCS	(1,908,471)	0	0	(1,908,471)
Total recognised income and expense for 2009/10		(1,349,871)	639,510	(77)	(710,438)
Funding from Scottish Government		1,504,600	0	0	1,504,600
Balance at 31 March 2010		8,315,064	7,326,560	890	15,642,514

NOTES TO THE ACCOUNTS

1. Statement of accounting policies

In accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 (reproduced at page 68) these accounts have been prepared in compliance with the principles and disclosure requirements of the Government Financial Reporting Manual, which follows general accepted accounting practice as defined in International Financial Reporting standards (IFRS) as adopted by the European Union and the Companies Act 2006 to the extent that it is meaningful and appropriate in the public sector context. The particular accounting policies adopted by the Scottish Government are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The accounts are prepared using accounting policies, and, where necessary, estimation techniques which are selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles, set out in International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors. Changes in accounting policies which do not give rise to a prior year adjustment are reported in the relevant note.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified where appropriate for the revaluation of property, plant and equipment, intangible assets and, where material, current asset investment to fair value as determined by the relevant accounting standard.

1.2 Trunkings / Detrunkings

The trunking or detrunking of roads from or to local authorities is treated as a transfer from or to other government departments. Roads and structures detrunked are effectively dealt with as disposals in accounting terms at nil consideration. The associated profit or loss is processed through the general fund.

1.3 Prior Year Adjustments

Material adjustments relating to prior periods and arising from changes in accounting principles or from the correction of material errors are accounted for as prior year adjustments. Opening balances are adjusted for the cumulative effect of the prior year adjustment and comparative figures for the preceding period are restated.

1.4 Change of Accounting Policy

These financial statements have been prepared under International Financial Reporting Standards for the first time and the comparatives have been restated from UK Generally Accepted Accounting Policy (UK GAAP) where required. The reconciliation to IFRS from the previously published UK GAAP accounts is summarised at Note 2.

1.5 Property, Plant and Equipment

All PPE assets will be accounted for as non-current assets unless they are deemed to be held-for-sale (see 1.7 below) and are categorised into infrastructure (including assets under construction) and non-infrastructure assets. Infrastructure assets consist of roads, land and buildings within the highway perimeter, bridges, other structures and roadside communications.

Non-infrastructure assets include land and buildings, information & technology equipment, software licences and other specifically identified ring-fenced projects. Title to the freehold land and buildings shown in the accounts of Transport Scotland is held by the Scottish Ministers.

Capitalisation Policy

The road surface asset is recognised as a single asset. The road surface asset is held at depreciated replacement cost based on service potential. Subsequent expenditure on the road surface will be capitalised where it enhances or replaces the service potential. Expenditure that does not replace or enhance service potential will be expensed to the Operating Cost Statement.

Pre contract advance works and expenditure after contract award is capitalised for all road construction projects. Where a scheme is subsequently cancelled, all cumulative costs are written off to the Operating Cost Statement. Any retained land or buildings are transferred to land and buildings held for resale and valued at market rates.

All other categories of tangible non-current assets are capitalised if the expenditure is greater than:

Land & Buildings	£10,000
Information & communications technology (ICT)	£1,000
Plant & machinery	£5,000

Items falling below these limits are charged as an expense and shown in the Operating Cost Statement. Furniture and fittings are not capitalised unless part of a specially identified ring fenced project such as a major relocation exercise.

Major rail projects, which are capital in nature, are funded by Transport Scotland but as control of the economic benefit of the asset ultimately sits with Network Rail, the assets are not on the Statement of Financial Position of the Agency.

Valuation

Infrastructure Assets - the road network

The road network is valued at depreciated replacement cost as it is deemed to be specialist in nature. It is valued using a standard costing system, uplifted annually for indexation and periodically updated when new schemes become available as comparators.

The road surface is subject to annual valuations as measured by suitable indices.

Roads and structures	Price Adjusted Formulae Indices (“Baxter’s Index”) published online by the Building Cost Information Service
Land	Land indices produced by the Valuation Office Agency (VOA)

Upwards movements in value are taken to the revaluation reserve. Downward movements in value are set off against any credit balance held in the revaluation reserve until the credit is exhausted and thereafter expensed in the Operating Cost Statement.

Assets Under Construction

Road building schemes in the course of construction are capitalised at actual cost with no indexation.

Land and Buildings

Land and property released from road schemes and now deemed surplus to requirements is re-valued at open market value for disposal purposes.

Information Technology

Information technology assets are stated at historical cost with no indexation applied.

1.6 Depreciation

Infrastructure assets - the road network

Roads and associated street furniture have condition calculations done annually and the resultant increase or decrease in condition is reflected in the net asset value.

The annual depreciation charge for the road surface is the value of the service potential replaced through the maintenance programme plus, or minus any adjustment resulting from an annual condition survey.

Structures and communications assets are depreciated on a straight line basis over the expected useful life of the asset, normally 20 to 120 years.

Land is considered to have an indefinite life and is not depreciated. Assets under construction are not depreciated.

	Life in years
Road surface, sub-pavement layer, fencing, drainage and lighting	20 to 50
Road bridges, tunnels and underpasses	20 to 120
Culverts, retaining walls and gantries	20 to 120
Road communications assets	15 to 50

Non-Infrastructure Assets
With the exception of surplus land and properties awaiting resale, non-infrastructure assets are depreciated on a straight line basis over the expected life of the particular asset category as follows:

	Life in years
Freehold buildings	5 to 100
Leasehold buildings	shorter of length of lease or specific asset life
Surplus property awaiting resale	no depreciation
IT Equipment	3 to 10

1.7 Assets Held For Sale
A property is derecognised and held for sale under IFRS 5 when all of the following requirements are met:

- it is available for immediate sale
- a plan is in place, supported by management, and steps have been taken to conclude sale
- it is actively marketed and there is an expectation that the sale will be made in less than 12 months

Assets held for sale include assets where Transport Scotland intends and expects to sell within one year from the date of the classification of held for sale. Assets classified as held for sale are measured at the lower of their carrying amounts prior to reclassification as held for sale and their fair value less cost of sale. Assets classified as held for sale are not subject to depreciation or amortisation.

1.8 Donated Assets
Donated PPE assets are capitalised at their valuation on receipt and this value is credited to the valuation reserve. Any subsequent revaluations are also accounted for through this reserve. Each year an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the Operating Cost Statement.

1.9 Intangible Non-Current Assets
Purchased computer software licences are capitalised as intangible non-current assets where expenditure of £1,000 or more is incurred. These are valued at historic cost and amortised on a straight line basis over the expected life of the asset.

1.10 Financial Instruments
Transport Scotland measures and presents financial instruments in accordance with IAS 37, IAS39, and IFRS 7 as interpreted and adapted by the Government Financial reporting Manual (FReM). IAS 39 requires the classification of financial instruments into separate categories for which the accounting treatment is different. Transport Scotland has classified its financial instruments as follows:

Financial Assets:

- cash and cash equivalents, trade receivables, short term loans, accrued income relating to EU funding, amounts receivables and shares and loans will be reported in the 'Loans and Receivables' category
- shares held in and loans advanced to public sector bodies will be reported in a separate category

Financial Liabilities:

- borrowings, payables, accruals, bank overdrafts and financial guarantee contracts are classified as 'Other Liabilities'

Financial instruments are initially measured at fair value with the exception of 'Shares held in and loans advanced to public sector bodies' which are held at historic cost. The fair value of the financial assets and liabilities is determined as follows:

- the fair value of cash and cash equivalents and current non-interest bearing monetary financial assets and financial liabilities approximate their carrying value

- the fair value of other non current monetary financial assets and financial liabilities is based on market prices where a market exists, or has been determined by discounting expected cash flows by the current interest rate for financial assets and liabilities with similar risk profiles.

Financial instruments subsequent measurement depends on their classification:

- the fair value through the profit and loss are held at fair value with any changes going through the operating cost statement

- loans and receivables and other liabilities are held at amortised cost and not revalued unless they are included in a fair value hedge accounting relationship. Any impairment losses go through the operating cost statement

- shares held in and loans advanced to public sector bodies are held at historic cost less impairment with any impairment losses going through the operating cost statement

1.11 Rail Infrastructure Expenditure

Rail infrastructure expenditure is split between capital and resource. The expenditure classified as capital relates to infrastructure expenditure that is capital in nature, but the asset created or enhanced is recorded on the Statement of Financial Position of Network Rail rather than the Agency. The recorded capital expenditure reflects both direct activity in the year and the costs, in terms of capital and interest, for projects undertaken by Network Rail and recovered over a 30 year period.

1.12 Operating Income

Operating income relates directly to the operating activities of Transport Scotland. It principally comprises fees and charges for services provided on a full-cost basis to external customers in both the public and private sectors. It includes not only income appropriated in aid of the estimate but also income due to the Consolidated Fund, which in accordance with the FReM is treated as income. Operating income is stated net of VAT.

1.13 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. This classification between administration and programme follows the definition of administration costs as defined by HM Treasury. Administration costs reflect the costs of running the Agency and include administration staff costs as well as accommodation, communications and office supplies. Programme costs reflect the costs of operating, maintaining, managing and improving the road and rail infrastructure in Scotland over which Transport Scotland has power.

1.14 Grants Payable

Grants payable are recorded as expenditure in the period that the underlying activity giving entitlement to the grant occurs. Where necessary, obligations in respect of grant schemes are recognised as liabilities.

1.15 Capital Charge

A charge reflecting the cost of capital utilised by Transport Scotland is included in the Operating Cost Statement. The charge is calculated based on the average value over the year for all assets less liabilities at the real rate set by HM Treasury (currently 3.5%). Donated assets are excluded from this calculation.

1.16 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), more details of which can be found in note 3. The PCSPS is an unfunded multi-employer defined benefit scheme. Transport Scotland's contributions are recognised as a cost in the year. This complies with IAS 26.

1.17 Private Finance Initiative (PFI) Transactions

PFI transactions are accounted for in accordance with the IFRS based FREM. PFI contracts that meet the definition of service concession arrangements are accounted for in accordance with IFRIC 12.

Transport Scotland currently has two existing completed PFI schemes (see note 15 for more details). In both cases these assets are examples of service concessions under IFRIC 12. The private sector operator is contractually obliged to provide the services related to the infrastructure on behalf of the Scottish Government.

The infrastructure is recognised as a non-current asset when it comes into use.

The unitary payment is divided into three elements namely service charge, repayment of the capital element of the contract obligation and the interest expense on it (using the interest rate implicit in the contract).

1.18 Leases

At their inception, leases are classified as operating or finance leases, based on the extent to which the risks and rewards of ownership lie with the Agency. In making the classification, the Agency does not separate the land and buildings elements of arrangements which cover both elements.

Arrangements, including some PFI contracts that are not service concessions, whose fulfilment is dependent on the use of a specific asset or which convey a right to use an asset, are assessed at their inception to determine if they contain a lease. If an arrangement is found to contain a lease, that lease is then classified as an operating or finance lease. Transactions involving the legal form of a lease, such as lease and leaseback arrangements, are accounted for according to their economic substance.

Rentals under operating leases are charged to the Operating Cost Statement on a straight line basis over the term of the lease. Where the arrangement includes incentives, such as rent-free periods, the value is recognised on a straight-line basis over the lease term. Where the substantial risks and rewards of ownership are borne by the Agency, the asset is recorded as property, plant and equipment and a liability to the lessor is recorded of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding.

1.19 Provisions

Transport Scotland provides for legal and constructive obligations that are of uncertain timing or amount at the Statement of Financial Position at 31 March 2010 on the basis of the best professional estimate available. Provisions are charged to the Operation Cost Statement unless they will be capitalised as part of additions to non-current assets.

Land and Property Acquisition
Land and property acquisition provision relates primarily to the estimates made at the point of taking entry to compulsory purchased land. A valuation provided by the Valuation Office Agency is charged to the project at the point of taking entry to the land.

Early Departure Costs
Transport Scotland is required to meet the additional cost of benefits for those employees who retire early until they reach the age of 60 at which point the liability is assumed by the PCSPS. The cost of these benefits is provided in full when the employee retires.

1.20 Contingent Liabilities and Contingent Assets
In accordance with IAS 37, where there is a risk of a liability arising as a result of a past event but the amount and/or timing of the event is uncertain, estimates are included in the provisions or contingent liabilities based on an assessment of risk. The same principle is also applied to contingent assets.

1.21 VAT
Most of the activities of Transport Scotland fall outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is non-recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non current assets. To avoid the distortion of competition, VAT can be recovered on certain categories of expenditure under s41 of the VAT Act 1994.

Transport Scotland is not separately registered for VAT. The quarterly VAT return is completed centrally by the Scottish Government.

From 2007/08 apart from any timing difference any outstanding VAT balances have been transferred to the Scottish Government.

1.22 Segmental Reporting
IFRS 8 Segmental Reporting requires operating segments to be identified on the basis of internal reports about components of Transport Scotland that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and assess their performance.

1.23 Trade Receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is made where there is objective evidence that Transport Scotland will not be able to collect all amounts due according to the original terms of the receivables.

1.24 Trade Payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.25 Short Term Employee Benefits
A liability and expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not taken.

2. Explanation of the Transition to IFRS

For all periods up to and including the year ended 31 March 2009, Transport Scotland prepared its annual report and accounts in accordance with UK GAAP. For the year ended 31 March 2010, Transport Scotland is required to prepare its annual report and accounts in accordance with International Financial Reporting Standards (IFRS) as interpreted by the IFReM.

IFRS 1 requires that where an entity adopted IFRS for the first time, comparative amounts should be restated to reflect the new accounting policies, and that the date of transition to IFRS is the beginning of the earliest comparative year reported in the financial statements. For Transport Scotland applying IFRS from 2009-10, this means that the effective date of transition to IFRS is 1 April 2008.

The IFRS also requires that accounting policies are applied retrospectively i.e. as if the transactions had always been accounted for under the new policy.

The reconciliation from UK GAAP accounts to IFRS accounts, completed in accordance with IFRS 1, is summarised in the following two tables.

TABLE 1

Reconciliation of Taxpayer's Equity from UK GAAP to IFRS as at 31 March 2008 and 31 March 2009

	General Fund £'000	Revaluation Reserve £'000	Donated Asset Reserve £'000	Total Reserves £'000
Taxpayers' equity at 31 March 2008 under UK GAAP	7,930,197	6,459,751	1,045	14,390,993
Adjustments for:				
IAS 19: Employment Benefits	(590)	0	0	(590)
IFRIC 12: Service Concessions	8,450	66,999	0	75,449
Taxpayers' equity at 1 April 2008 under IFRS	7,938,057	6,526,750	1,045	14,465,852
Taxpayers' equity at 31 March 2009 under UK GAAP	8,118,955	6,643,741	968	14,763,664
Adjustments for:				
IAS 19: Employment Benefits	(576)	0	0	(576)
IFRIC 12: Service Concessions	1,694	83,570	0	85,264
IAS 16: Non-current Assets	40,261	(40,261)	0	0
Taxpayers' equity at 1 April 2009 under IFRS	8,160,334	6,687,050	968	14,848,352

TABLE 2
Reconciliation of Operating Cost Statement for the year ended 31 March 2009 from UK GAAP to IFRS

	OCS as at 31.03.09 Under UK GAAP	Employment Benefits	Service Concessions Adjustment	Cost of Capital Adjustment	Non-Current Asset Adjustment	Depreciation Adjustments	As Restated Under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Administration Costs							
Staff Costs	10,402	(14)	0	0	0	0	10,388
Other Administration Costs	5,750	0	0	0	0	0	5,750
	16,152	(14)	0	0	0	0	16,138
Less: Operating Income	(77)	0	0	0	0	0	(77)
Total Administration Costs	16,075	(14)	0	0	0	0	16,061
Programme Costs							
Staff Costs	2,968	0	0	0	0	0	2,968
Programme Costs	1,882,547	0	532	11,030	(40,261)	736	1,854,584
	1,885,515	0	532	11,030	(40,261)	736	1,857,552
Less: Income	(9,266)	0	0	0	0	0	(9,266)
Total Programme Costs	1,876,249	0	532	11,030	(40,261)	736	1,848,286
Net Operating Costs	1,892,324	(14)	532	11,030	(40,261)	736	1,864,347

IAS19 Employee Benefit
IAS19 applies to the accounting for employee benefits, which states that entities must recognise the expected cost of short term accumulating compensated absences. Transport Scotland has carried out an exercise to cost the amount of holiday entitlement owed to staff at the end of each financial year. To recognise the costs, Transport Scotland has created a liability in the statement of financial position.

IFRIC12 Service Concession Arrangements
Under UK GAAP, Transport Scotland adopted the gross method of accounting for its residual interest in the Public Private Partnership (PPP) contracts for M6 (M74) DBFO and M77 Fenwick to Malletsheugh where the provider was assessed by Transport Scotland as carrying the majority of the risks and rewards associated with ownership.
IFRIC 12 changes the criteria for determining the accounting treatment from a risk based model to a control based model. Following an assessment by Transport Scotland of the new criteria the infrastructure created by the service concession arrangements are recognised on the Statement of Financial Position as property, plant and equipment with corresponding debts recorded in leased trade payables. This adjustment reflects the net impact of these changes.

Cost of Capital
The Cost of Capital has been recalculated following the application of the adjustment above.

Depreciation
The Depreciation charges have been recalculated following the application of IFRIC 12 (Service Concessions).

3. Staff Numbers and Costs

Staff costs comprise:			2009/10			2008/09
	Permanently employed Staff	Others	Total	Permanently employed Staff	Others	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries costs	7,118	1,419	8,537	5,768	2,840	8,608
Social Security costs	548	0	548	500	0	500
Other pension costs	1,398	0	1,398	1,280	0	1,280
Staff costs in programme	4,121	0	4,121	3,672	0	3,672
Total net staff costs	13,185	1,419	14,604	11,220	2,840	14,060

Permanent staff are civil servants who have an employment contract with the Agency.

Wages & salaries include gross salaries, performance pay or bonuses received in year, overtime, London weighting or London allowances, recruitment and retention allowances, private office allowances, ex-gratia payments and any other allowance to the extent that it is subject to UK taxation. The payment of legitimate expenses is not part of salary.

Transport Scotland granted 2 staff early retirement in 2009/10 and one granted early severance, all of whom were funded directly by the Agency under flexible early retirement terms. No staff retired early on ill-health grounds. The average annualised sick days for full time equivalent staff is 7.46 days.

In 2009/10 a further provision for migration costs of £151k was added to staff costs to cover the relocation of staff from Edinburgh to Glasgow in accordance with the Scottish Government's relocation policy.

Pension Costs

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Transport Scotland is unable to identify its share of the underlying assets and liabilities. The scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

From 30 July 2007, new civil servants may join one of two schemes, either Nuvos or Partnership. Nuvos is a career average defined benefit scheme and Partnership is a defined contribution arrangement (Partnership Pension Account).

For 2009/10, employers' contributions of £1,993k were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands (the rates in 2008/09 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates remain the same.

The contribution rates are set to meet the cost of the benefits accruing during 2009/10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable pay for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic scheme, there is no automatic lump sum, but members can commute some of their pension to provide a lump sum. Members pay contributions of 3.5% of pensionable earnings.

(c) Classic Plus Pension Scheme

This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

(d) Nuvos Pension Account

Like the Premium Scheme there is no automatic lump sum, but members can commute some of their pension to provide a lump sum. Members pay contributions of 3.5% of pensionable earnings.

(e) Partnership Pension Account

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers may also contribute a further 0.8% of pensionable salary to cover the cost of the future provision of lump sum.

Average numbers of persons employed

	2009/10			2008/09		
	Permanent Staff	Others	Total	Permanent Staff	Others	Total
Trunk Roads Major Projects	57	12	69	58	12	70
Trunk Road Maintenance	92	28	120	86	26	112
Rail	71	25	96	69	17	86
Strategy & Investments	33	4	37	32	5	37
Finance and Other	55	12	67	63	21	84
Total average staff numbers	308	81	389	308	81	389

4. Other Running Costs

	note	2009/10 £'000	2008/09 £'000
Rentals under operating leases		1,096	1,262
Accommodation		1,320	806
Office Costs and Supplies		1,558	1,517
Hospitality		65	107
Travel		323	641
Training		198	210
Consultancy		253	491
Non-cash items			
Depreciation	7	471	523
Prior Year Depreciation Adjustment		6	0
Auditors remuneration and expenses - External	21	207	193
Total Administration Costs		5,497	5,750

5. Programme Costs

		note	2009/10 £'000	2008/09 £'000
Other Programme Expenditure				
Roads				
	Capital Maintenance		59,790	90,584
	Current Maintenance		129,786	97,678
	Forth Replacement Crossing		30,639	21,682
	Other		284	1,419
	Rentals under operating leases		160	160
	Interest Charges		14,461	14,730
	PFI Service Charges		19,967	18,130
Rail				
***	ScotRail Franchise		271,268	321,957
*	Rail Infrastructure in Scotland Capital		238,300	228,592
**	Rail Infrastructure in Scotland Resource		128,669	138,030
	Scotland's Railways		2,156	3,842
	Other		478	3,184
Concessionary Travel				
	Smartcard Applications		9,249	10,958
	Concessionary Travel Schemes		189,573	181,641
Other Public Transport				
	Major Public Transport Projects - Rail		166,089	135,277
	Transport Information		1,022	1,805
	Strategic Transport Projects Review		1,290	2,035
Non-cash items				
	Depreciation	7	92,885	61,509
	Cost of Capital Charges	21	532,566	521,371
Total other programme costs			1,888,632	1,854,584

* The Rail Infrastructure in Scotland Capital Expenditure figure of £238,300k was paid directly to Network Rail.

** The Rail Infrastructure in Scotland Resource Expenditure of £128,669k was paid to Network Rail via DfT.

*** Payment to ScotRail Franchise in 2009/10 totalled £271,421k as per Note 16. This included depreciation costs totalling £153k which is included within the Depreciation charges (under non-cash items) as required by International Financial Reporting Standards (IFRS).

6. Operating income

	note	2009/10 £'000	2008/09 £'000
Programme Income			
Rental income - land & properties		162	397
Sale of land and property		23	8,869
Non Cash Income			
Release from donated asset reserve	SCITE	77	77
Total programme income		262	9,343

Operating income principally arises from:

- rental income from land and properties acquired for road schemes and now surplus to requirements.
- sale of land and property which is surplus to the requirements of the road or rail scheme.

7. Property, plant and equipment

2009/10	Road Network	Land	Buildings	IT	Leasehold Improvements	Assets under Construction	Total
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1st April 2009	17,253,412	178	1,155	4,046	4,062	351,202	17,614,055
Detrunkings	(6,630)	0	0	0	0	0	(6,630)
Capital Additions	30,991	1,272	0	97	0	276,617	308,977
Disposals	0	0	0	0	0	0	0
Revaluation	851,245	0	43	0	110	0	851,398
Current valuation adjustments	(68,861)	0	0	0	0	0	(68,861)
Historic valuation adjustments	25,223	0	0	(23)	(5)	0	25,195
Transfers and reclassifications	46,848	0	0	0	0	(46,848)	0
Balances at 31st March 2010	**18,132,228**	**1,450**	**1,198**	**4,120**	**4,167**	**580,971**	**18,724,134**
Depreciation							
At 1st April 2009	2,462,060	0	4	1,943	1,073	0	2,465,080
Detrunkings	(1,110)	0	0	0	0	0	(1,110)
Charge for the year	92,310	0	1	636	415	0	93,362
Disposals	0	0	0	0	0	0	0
Revaluation	146,874	0	0	0	36	0	146,910
Current valuation adjustments	67,162	0	0	7	0	0	67,169
Historic valuation adjustments	(76,919)	0	0	(16)	16	0	(76,919)
Transfers and reclassifications	0	0	0	0	0	0	0
Balances at 31st March 2010	**2,690,377**	**0**	**5**	**2,570**	**1,540**	**0**	**2,694,492**
Net Book Value at 31st March 2010	15,441,851	1,450	1,193	1,550	2,627	580,971	16,029,642
Net Book Value at 31st March 2009	14,791,352	178	1,151	2,103	2,989	351,202	15,148,975
Net Book Value at 1st April 2008	14,441,808	178	1,152	2,734	3,403	396,365	14,845,640
Asset Financing							
Owned	15,441,851	1,450	1,193	1,550	2,627	580,971	16,029,642
Leased	0	0	0	0	0	0	0
Net Book Value at 31st March 2010	15,441,851	1,450	1,193	1,550	2,627	580,971	16,029,642

Detrunkings are transfer of the asset to local authorities with the corresponding entry flowing through the General Fund (SCITE).

EC Harris LLP (RICS Regulated) carries out an annual valuation of the road network assets.

Revaluation is based on indexation for all road network assets apart from land. Land is valued at market rates based on information supplied by the Valuation Office Agency. All revaluation movement is reflected through the revaluation reserve (SCITE).

Adjustments arise in a number of situations, for example, on the completion of road schemes the transfer from Assets Under Construction which are recorded at cost to the road network which is valued at depreciated replacement cost, there will usually be an adjustment. Similarly, adjustments can arise through the more accurate measurement of the dimension of the assets and these will be reflected through the Operating Cost Statement, General Fund or Revaluation Reserve as appropriate to circumstance.

Transfers and reclassifications are the costs of completed assets being transferred out of Assets Under Construction and capital maintenance costs.

Property, plant and equipment

2008/09	Road Network	Land	Buildings	IT	Leasehold Improvements	Assets under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1st April 2008	16,758,467	178	1,155	3,995	4,062	396,365	17,164,222
Detrunkings	(23,023)	0	0	0	0	0	(23,023)
Capital Additions	30,000	0	0	51	0	162,515	192,566
Disposals	0	0	0	0	0	0	0
Revaluation	327,296	0	0	0	0	(5,290)	322,006
Current valuation adjustments	(37,635)	0	0	0	0	(2,643)	(40,278)
Historic valuation adjustments	(5,992)	0	0	0	0	4,554	(1,438)
Transfers and reclassifications	204,299	0	0	0	0	(204,299)	0
Balances at 31st March 2009	17,253,412	178	1,155	4,046	4,062	351,202	17,614,055
Depreciation							
At 1st April 2008	2,316,659	0	3	1,261	659	0	2,318,582
Detrunkings	(4,748)	0	0	0	0	0	(4,748)
Charge for the year	60,933	0	1	682	414	0	62,030
Disposals	0	0	0	0	0	0	0
Revaluation	92,276	0	0	0	0	0	92,276
Current valuation adjustments	(17)	0	0	0	0	0	(17)
Historic valuation adjustments	(3,043)	0	0	0	0	0	(3,043)
Transfers and reclassifications	0	0	0	0	0	0	0
Balances at 31st March 2009	2,462,060	0	4	1,943	1,073	0	2,465,080
Net Book Value at 31st March 2009	14,791,352	178	1,151	2,103	2,989	351,202	15,148,975
Net Book Value at 1st April 2008	14,441,808	178	1,152	2,734	3,403	396,365	14,845,640
Asset Financing							
Owned	14,791,352	178	1,151	2,103	2,989	351,202	15,148,975
Net Book Value at 31st March 2009	14,791,352	178	1,151	2,103	2,989	351,202	15,148,975

8. Intangible assets

	Software Licences
	£'000
At replacement cost or valuation	
At 1st April 2009	53
Capital additions	0
Disposals	0
Historic valuation adjustments	43
Transfers and reclassifications	0
Balances at 31st March 2010	96
Accumulated Amortisation	
At 1st April 2009	(53)
Charge for the year	(14)
Additions	0
Disposals	0
Historic valuation adjustments	(16)
Transfers and reclassifications	0
Balances at 31st March 2010	(83)
Net Book Value at 31st March 2010	13
Net Book Value at 31st March 2009	nil
Net Book Value at 1st April 2008	3

Purchased computer software licences are capitalised as intangible non-current assets where expenditure of £1,000 or more is incurred. These are valued at historic cost and amortised on a straight line basis over the expected life of the asset.

9. Trade receivables and other current assets

9a	Analysis by type	as at 31/03/10	as at 31/03/09	as at 01/04/08
		£'000	£'000	£'000
	Amounts falling due after more than one year:			
	Other receivables of which:-			
	Other receivables	971	971	(6)
	Damage Claims	2,288	2,372	2,532
	Land for resale	0	425	853
		3,259	3,768	3,379
	Amounts falling due within one year:			
	Trade receivables	120	471	25
	Other receivables	276	20	85
	Prepayments & accrued income	54,277	55,552	39,603
		54,673	56,043	39,713

9	Analysis by classification	as at 31/03/10	as at 31/03/09	as at 01/04/08
		£'000	£'000	£'000
	Trade and other receivables			
	Trade and other receivables	701	1,463	104
	Damage Claims	2,288	2,372	2,532
		2,989	3,835	2,636
	Other Current Assets			
	Other Assets	666	425	853
	Prepayments and Accrued Income	54,277	55,552	39,603
		54,943	55,977	40,456

9c Intra-Government Balances

	Amounts falling due within 1 year			Amounts falling due after more than 1 year		
	as at 31/03/10	**as at 31/03/09**	**as at 01/04/08**	**as at 31/03/10**	**as at 31/03/09**	**as at 01/04/08**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Other central government bodies	100	20	4	0	0	(155)
Local authorities	34,672	26,805	24,792	0	0	429
Public corporations and trading funds	(390)	390	0	0	0	0
Intra-Government Balances	34,382	27,215	24,796	0	0	274
Balances with bodies external to government	20,291	28,828	14,917	3,259	3,768	3,105
Total Receivables	54,673	56,043	39,713	3,259	3,768	3,379

10. Trade payables and other current liabilities

10

Analysis by type	**as at 31/03/10**	**as at 31/03/09**	**as at 01/04/08**
	£'000	**£'000**	**£'000**
Amounts falling due after more than one year:			
Other Payables of which:-			
Other Payables	1,407	2,007	2,102
PFI - Long term liability	199,875	204,251	208,319
Retentions on road schemes	7,782	9,259	2,915
	209,064	215,517	213,336
Amounts falling due within one year:			
Trade payables	419	504	2,337
Other Payables	1,337	0	0
Accruals and deferred income	151,381	71,249	135,939
PFI - Short term liability	4,377	4,068	3,781
Retentions on road schemes	8,617	0	0
Employment benefits	663	576	590
	166,794	76,397	142,647

10 Analysis by classification	as at 31/03/10	as at 31/03/09	as at 01/04/08
	£'000	£'000	£'000
Current Liabilities			
Trade payables	419	504	2,337
Other Payables	161,998	71,825	136,529
Financial liabilities	4,377	4,068	3,781
	166,794	76,397	142,647

10c Intra-Government Balances	Amounts falling due within 1 year			Amounts falling due after more than 1 year		
	as at 31/03/10	as at 31/03/09	as at 01/04/08	as at 31/03/10	as at 31/03/09	as at 01/04/08
	£'000	£'000	£'000	£'000	£'000	£'000
Other central government bodies	1,601	654	587	0	0	0
Local authorities	37,603	8,788	10,692	120,695	77,464	67,080
Public corporations and trading funds	64	0	0	0	0	0
Intra-Government Balances	39,268	9,442	11,279	120,695	77,464	67,080
Balances with bodies external to government	127,526	66,955	131,368	88,369	138,053	146,256
Total Payables	166,794	76,397	142,647	209,064	215,517	213,336

11. Provisions for Liabilities and Charges

11a	Land and Property Acquisition	Major Projects	Migration and Other	Damages	Total
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2009	60,380	4,482	3,215	443	68,520
Provided in year	57,077	16,131	13,562	0	86,770
Provisions not required written back	(1,480)	(800)	0	0	(2,280)
Provisions utilised in year	(75,607)	(1,082)	(7,108)	0	(83,797)
Balance as at 31 March 2010	40,370	18,731	9,669	443	69,213
Balance as at 31 March 2009	60,380	4,482	3,215	443	68,520
Balance as at 1 April 2008	61,037	3,500	1,424	939	66,900

11b Analysis of expected timing of discounted flows

	Land and Property Acquisition	Major Projects	Migration and Other	Damages	Total
	£'000	£'000	£'000	£'000	£'000
In the remainder of the spending review period to 2011	21,609	2,689	6,750	266	31,314
Between 2012 and 2015	9,380	9,226	1,595	177	20,378
Between 2016 and 2020	9,381	6,816	1,324	0	17,521
Thereafter	0	0	0	0	0
Balance as at 31 March 2010	40,370	18,731	9,669	443	69,213

Land and Property Acquisition
Land and property acquisition provisions relate principally to the estimated cost of planning blight, discretionary and compulsory acquisition of property and compensation for property owners arising from physical construction of a road or rail scheme. It may take several years from the announcement of a scheme to completion and final settlement of all liabilities.

Major Projects
Major projects provision relates to capital projects that we are engaged in but have not paid the full expenditure incurred in year due to a variety of reasons.

Migration and Other
Transport Scotland was created as an Executive Agency of the Scottish Government in January 2006 and this has resulted in the creation of liabilities relating to staff moving or travelling from Edinburgh to Glasgow. It is Transport Scotland's policy to recognise such liabilities at the point at which we announce and are, in practical terms, committed to, the creation of the Agency.

Other provisions liabilities relate to the early retirement of Agency staff.

Damages
Damage provision relates principally to the estimated cost of repairing vehicular damage to the Trunk Road Network. If the cost of the repairs is below a pre-defined threshold, the operating company responsible for the maintenance of the trunk road has to pursue recovery of the cost with the third party. If the repairs cost above the threshold, the operating company charge Transport Scotland and it is the responsibility of Transport Scotland to pursue these amounts from the insurance companies of the 3rd party.

12. Movement on Working Capital Balances

	Note	As at 1 April 2009 £'000	As at 31 March 2010 £'000	Net Movement £'000
RECEIVABLES				
Due within one year	9	56,043	54,673	1,370
Due after more than one year	9	3,768	3,259	509
		59,811	57,932	1,879
Net Decrease/(Increase)				**1,879**
PAYABLES				
Due within one year	10	76,397	166,794	(90,397)
Due after more than one year	10	215,517	209,064	6,453
		291,914	375,858	(83,944)
Less: Lease and PFI Creditors included in above	10	209,563	205,495	4,068
Net (Decrease)/Increase		**82,351**	**170,363**	**88,012**
Provision	11	68,520	69,213	693
NET MOVEMENT (Decrease)/Increase				**90,584**

13. Capital Commitments

Transport Scotland's commitment to make future capital payments on major road schemes currently under construction. The main works contracts have been awarded and the commitment has not been reflected elsewhere in the accounts.

	2009/10 £'000	2008/09 £'000
Property, plant and equipment	282,500	441,956
Total contracted capital commitments for which no provision has been made	282,500	441,956

14. Commitments under Operating Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires:

	2009/10 Land & Buildings £'000	2008/09 Land & Buildings £'000
Due within 1 year	1,450	1,421
Due after 1 year but not more than 5 years	5,782	5,788
Commitments thereafter	8,048	9,492
	15,280	16,701

15. COMMITMENTS UNDER PFI CONTRACTS

15a On Balance Sheet

Transport Scotland has entered into the following on-balance sheet PFI contracts for design, build, finance and maintenance.

- M6 (M74) DBFO
- M77 Fenwick to Malletsheugh

a) M6 (M74) - the contract covers the design, construction, financing and operation of 28.3km of the new Scottish motorway as well as the operation and maintenance of 90km of new and existing Scottish motorway. Payments are made under a shadow toll regime. The toll period began in July 1997 and expires in July 2027.

b) M77 - this is a joint Public Private Partnership (PPP) entered into by the Scottish Government, East Renfrewshire and South Lanarkshire Councils. The project covers the design, construction, financing and operation of 15km of the new Scottish motorway and a new 9km local link road between the new motorway and the A726 trunk road. Payments are made under a shadow toll regime.

Under IFRIC 12 the substance of the PFI contract is that the Agency has a finance lease, with the asset being recognised as a non-current asset of the Agency. Payments under PFI contracts comprise two elements - imputed finance lease charges and service charges.

Imputed finance lease obligations under on-balance sheet PFI contracts comprise:

	2009-10	2008-09
	£'000	£'000
Rentals due within 1 year	19,326	19,326
Rentals due within 2 to 5 years	77,304	77,304
Rentals due thereafter	309,471	328,797
	406,101	425,427
Less Interest element (Finance Cost)	(201,850)	(217,108)
Total Capital Cost	**204,251**	**208,319**

Amounts charged to the Operating Cost Statement in respect of service elements of on-balance sheet PFI transactions.

	2009-10	2008-09
	£'000	£'000
Service charge due within 1 year	22,691	19,170
Service charge due within 2 to 5 years	106,016	95,614
Service charge due thereafter	424,322	457,416
Total Service Charge	**553,029**	**572,200**

15b OFF BALANCE SHEET

Transport Scotland does not have any assets that are off-balance sheet.

16. Other Financial Commitments - Rail

Transport Scotland is committed to pay an income stream to Network Rail in accordance with the Deed of Grant and to First ScotRail under the Franchise Agreement.

Network Rail - The current control period for Network Rail runs from April 2009 to March 2014.

First ScotRail - During 2008/09 Scottish Ministers extended the First ScotRail Franchise by 3 years to 2014.

The total amount charged to the Transport Scotland operating cost statement in respect of these schemes is:

	2009/10	**2008/09**
	£'000	**£'000**
Network Rail	366,969	366,622
First ScotRail	271,421	322,110
Total	638,390	688,732

The amounts owing under these contracts in the following years, analysed between those periods where the commitment expires are :

	Network Rail	First ScotRail	Total
	£'000	**£'000**	**£'000**
Expiry within 0-12 months	359,000	310,000	669,000
Expiry within 1 to 2 years	417,000	381,000	798,000
Expiry within 2 to 5 years	580,000	1,128,600	1,708,600
Total	1,356,000	1,819,600	3,175,600

17. FINANCIAL INSTRUMENTS

17a FINANCIAL INSTRUMENTS BY CATEGORY

AT 31 MARCH 2010	Note	Loans and Receivables £'000	Assets at Fair Value through profit and loss £'000	Available for sale £'000	Total £'000
Assets per statement of financial position					
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	9	3,655	0	0	3,655
		3,655	**0**	**0**	**3,655**

AT 31 MARCH 2010	Note	Liabilities at Fair Value through profit and loss £'000	Other financial liabilities £'000	Total £'000
Liabilities per statement of financial position				
PFI Liabilities	10	0	204,251	204,251
Trade and other payables excluding statutory liabilities (VAT and income tax and social security)	10	0	169,700	169,700
		0	**373,951**	**373,951**

17b FINANCIAL RISK FACTORS

Exposure to Risk

Transport Scotland's activities expose it to a variety of financial risks:

Credit risk - the possibility that other parties might fail to pay amounts due.
Liquidity risk - the possibility that Transport Scotland might not have funds available to meet its commitments to make payments.
Market risk - the possibility that financial loss might arise as a result of changes in such measures as interest rates, stock market movements or foreign exchange rates.

Because of the largely non-trading nature of its activities and the way in which government departments are financed, Transport Scotland is not exposed to the degree of financial risk faced by business entities.

Risk management - A high level risk strategy has been put in place which provides a consistent approach to the implementation of a Risk Management control process within the Agency at a strategic, programme and project level. A Risk Management Committee has also been established.

a) Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and other institutions, only independently rated parties with a minimum rating of 'A' are accepted.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by Transport Scotland. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period and no losses are expected from non-performance by any counterparties in relation to deposits.

b) Liquidity Risk

The Scottish Parliament makes provision for the use of resources by Transport Scotland for revenue and capital purposes in a Budget Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Budget Act. The Act also specifies an overall cash authorisation to operate for the financial year. Transport Scotland is not, therefore, exposed to significant liquidity risks.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to contractual maturity date. The amounts disclosed in the table are the contractual discounted cash flows. Balances due within 12 months are included at their carrying balances as the impact of discounting is not significant.

Contractual maturity for financial liabilities	Carrying value	0-12 months	1-2 years	2-5 years	5-10 years	>10 years
	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative liabilities	(373,951)	(166,131)	(163)	(7,782)	(35,992)	(163,883)
Derivative liabilities	0	0	0	0	0	0
Total financial liabilities	**(373,951)**	**(166,131)**	**(163)**	**(7,782)**	**(35,992)**	**(163,883)**

c) Market Risk

Transport Scotland has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing Transport Scotland in undertaking its activities.

i) Cash flow and fair value interest rate risk

Transport Scotland has no significant interest bearing assets or liabilities and, as such, income and expenditure cash flows are substantially independent of changes in market interest rates.

ii) Foreign Currency Risk

Transport Scotland is not exposed to foreign exchange rate risks.

iii) Price Risk

Transport Scotland is not exposed to equity security price risk.

17c FAIR VALUE ESTIMATION

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current HM Treasury interest rate that is available for similar financial instruments.

18. Contingent Liabilities

Contingent Liabilities under IAS37 are defined as past events where it is possible that a transfer of economic benefits will be required to settle but no reliable estimate can be made.

18a. Contingent Liabilities disclosed under IAS37

Transport Scotland has the following guarantee in place:

- funding received by EU re TENS -T funding re GARL Project (850k Euros / £759k)

At present we have a possible obligation whose existence will be confirmed by the occurrence of an uncertain future event not wholly in Transport Scotland control. The obligation relates to potential unoccupied lane charges on schemes that are still in construction.

The schemes are the M74 completion and A96 Fochabers where it is estimated that at present there is a potential obligation of approximately £1.45m. This will be re-assessed at scheme completion in 2012 at which stage a provision will be created for all unused lane occupations.

18b Possible Contingent Liabilities not required under IAS37 but included for parliamentary and accountability purposes

Transport Scotland has provided the following:

Contracts including indemnity clauses where risk is either considered part of the normal course of business or is not quantifiable:

- Operating agreement (ScotRail Franchise Agreement) with indemnity dated 2004 to First ScotRail
- Indemnity clause in roads contracts to compensate Network Rail for any damage or loss of access
- Operating agreement with indemnity dated 2005 to tie Ltd for the promotion of Edinburgh Airport Rail Link (EARL) project
- EARL Blight liability agreement which exists until 2012 as per the EARL Act
- Liability agreement for any issues caused by the GARL ground investigation work for the next 12 years.

Guarantees / Letters of Comfort:

- S54 guarantees issued as part of rail rolling stock procurement process
- Scottish Government underwriting First ScotRail pension fund in line with that provided to other train operators by DfT
- Letter of underwriting to Edinburgh Airport Limited (subsidiary of BAA) dated 2006 for the Edinburgh Airport Rail Link Project being promoted by tie Limited
- Road Guarantee issued to the two bidding consortia for the Forth Replacement Crossing to reimburse them for the cost of their tender bids to a capped level in the event that the Forth Bill is not enacted.

Other contingent liabilities:

- Monklands Canal - maintenance of pipes under trunk roads.

19. Related Party Transactions

Transport Scotland is an Executive Agency of the Scottish Government. The Scottish Government is regarded as a related party with which the Agency had various material transactions during the year. Transport Scotland also had significant transactions with Local Authorities during the year.

All interests declared by members of the Transport Scotland Board are of a minor nature and have no impact on the awarding of contracts and commissions.

20. Segmental Reporting

20a Business segments - operating cost statement

31st March 2010	Resource £'000	Net Investment £'000	Income £'000	Non Cash £'000	AME £'000	Total £'000
Roads	153,235	101,669	(185)	87,772	538,170	880,661
Rail	400,633	238,300	0	0	0	638,933
Concessionary Travel	190,244	10,163	0	0	0	200,407
Other Public Transport	28,527	159,943	0	0	0	188,470
Total Continuing Segments	772,639	510,075	(185)	87,772	538,170	1,908,471

31st March 2009	Resource £'000	Net Investment £'000	Income £'000	Non Cash £'000	AME £'000	Total £'000
Roads	186,094	95,690	(9,266)	14,706	531,858	819,082
Rail	462,661	236,379	0	0	0	699,040
Concessionary Travel	181,998	11,369	0	0	0	193,367
Other Public Transport	20,043	132,815	0	0	0	152,858
Total Continuing Segments	850,796	476,253	(9,266)	14,706	531,858	1,864,347

20b Business segments - statement of financial position

31st March 2010	Plant Property and Equipment £'000	Other Segment Assets £'000	Total Segment Assets £'000	Total Segment Liabilities £'000	Net Assets/ (Liabilities) £'000
Roads	16,022,823	3,088	16,025,911	(364,905)	15,661,006
Rail	88	44,565	44,653	(62,078)	(17,425)
Concessionary Travel	1,268	9,995	11,263	(13,400)	(2,137)
Other Public Transport	5,476	284	5,760	(4,690)	1,070
Total Continuing Segments	16,029,655	57,932	16,087,587	(445,073)	15,642,514

31st March 2009	Plant Property and Equipment £'000	Other Segment Assets £'000	Total Segment Assets £'000	Total Segment Liabilities £'000	Net Assets/ (Liabilities) £'000
Roads	15,142,554	2,797	15,145,351	(297,035)	14,848,316
Rail	230	29,016	29,246	(31,960)	(2,714)
Concessionary Travel	1,679	0	1,679	(9,877)	(8,198)
Other Public Transport	4,512	27,998	32,510	(21,562)	10,948
Total Continuing Segments	15,148,975	59,811	15,208,786	(360,434)	14,848,352

21. Notional Charges

The following notional charges have been included in the accounts:	note	2009/10 £'000	2008/09 £'000
Cost of capital charges	5	532,566	521,371
Auditors remuneration	4	207	193
		532,773	521,564

The cost of capital is calculated as 3.5% of assets less liabilities over the year, excluding donated assets and any cash balances.

22. Losses and Special Payments

	2009/10		2008/09
	no of cases	£'000	£'000
Total Cash losses	0	0	631
Details of cases over £250,000	0	0	0
Including - Claims abandoned	0	0	(9)
- Active claims	0	0	622

All the active claims reported in a year refer to the National Concessionary Travel Schemes where it is a legal requirement to make payments in advance.

23. GARL Closedown Costs

Branch line works for Glasgow Airport Rail-Link (GARL) were cancelled in September 2009. However, obligations under the GARL Act for certain mainline works were not cancelled. Where obligations under the GARL Act could not be cancelled, costs were incurred as a result. Such costs, totalling £12.5m in 2009/10 included land and associated costs, BAA costs and associated compensation, contractor closedown costs and completion of advanced works, where completion was a more cost effective solution than cessation.

Annex A

TRANSPORT SCOTLAND
DIRECTION BY THE SCOTTISH MINISTERS

IN ACCORDANCE WITH SECTION 19(4) OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

1. The statement of accounts for the financial year ended 31 March 2007 and subsequent years shall comply with the accounting principles and disclosure requirements of the edition of the Government *Financial Reporting Manual* (FReM) which is in force for the year for which the statement of accounts are prepared.

2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

3. This direction shall be reproduced as an appendix to the statement of accounts.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006

Further copies of this document are available, on request, in audio and large print formats and in community languages, please contact:

اس دستاویز کی مزید کاپیاں آڈیو کیسیٹ پر اور بڑے حروف کی چھپائی میں اور کمیونٹی کی
زبانوں میں طلب کیے جانے پر دستیاب ہیں، برائے مہربانی اس پتہ پر رابطہ کریں:

এই ডকুমেন্ট-এর (দলিল) অতিরিক্ত কপি, অডিও এবং বড়ো ছাপার অক্ষর আকারে এবং
সম্প্রদায়গুলোর ভাষায় অনুরোধের মাধ্যমে পাওয়া যাবে, অনুগ্রহ করে যোগাযোগ করুন:

Gheibhear lethbhreacan a bharrachd ann an cruth ris an èistear, ann an clò mòr agus ann an cànain coimhearsnachd. Cuir fios gu:

इस दस्तावेज़/कागज़ात की और प्रतियाँ, माँगे जाने पर, ऑडियो टैप पर और बड़े अक्षरों में तथा कम्यूनिटी भाषाओं में मिल सकती हैं, कृपया संपर्क करें:

ਇਸ ਦਸਤਾਵੇਜ਼/ਕਾਗ਼ਜ਼ਾਤ ਦੀਆਂ ਹੋਰ ਕਾਪੀਆਂ, ਮੰਗੇ ਜਾਣ 'ਤੇ, ਔਡਿਓ ਟੇਪ ਉੱਪਰ ਅਤੇ ਵੱਡੇ ਅੱਖਰਾਂ ਵਿਚ ਅਤੇ ਕੰਮਿਉਨਿਟੀ ਭਾਸ਼ਾਵਾਂ ਦੇ ਵਿਚ ਮਿਲ ਸਕਦੀਆਂ ਹਨ, ਕ੍ਰਿਪਾ ਕਰਕੇ ਸੰਪਰਕ ਕਰੋ:

此文件有更多備份，如果需要，語音版本和大字體版本及少數種族語言版本也可提供，請聯絡：

يمكن أن تطلب النسخ الأخرى من هذا المستند كالتسجيل الصوتي والخط المكبر
ونسخ بلغات أخرى، يرجى الإتصال على:

Aby otrzymać niniejszy dokument w innej wersji językowej, na kasecie lub w wersji z powiększonym drukiem, prosimy o kontakt:

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The Scottish Government

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